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VOL. 74, NO. 4

Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

THE NATION'S BUSINESS

A fivefold increase in liability insurance premiums forced a temporary shutdown of the tramway between Roosevelt Island and Manhattan.

PHOTO © 1981 PETER B. KAPLAN

COVER STORY

Don Storer, marketing vice president for the Seiler Corporation, says that "right now, the service economy is the place to be." Seiler has been chalking up a 25 percent sales growth annually running feeding facilities for hospitals, schools and businesses.

PHOTO: T. MICHAEL KEZA

Highlights Of The Boom

- Services now account for nearly 70 percent of the gross national product.
- Of 25 million jobs created since 1970, 22 million, or 88 percent, were in the service sector.
- Nine out of 10 jobs created between now and 1995 are expected to be in services.
- The service sector is given principal credit for pulling the nation out of the 1982-83 recession.

Cover: Arnold Zann—Black Star

DEPARTMENTS

MANAGING YOUR BUSINESS

Humana, Inc., gets into marketing via Mary Lou Retton, whose shot at the 1984 Olympic gold was saved by one of Humana's orthopedic surgeons.

PHOTO: GARY LAUFMAN

PEOPLE/PERSONAL

Herman Valentine (center) runs a company that customizes computers to withstand rugged military use.

PHOTO: BILL BALLENBERG—BLACK STAR

TECHNOLOGY

Local area networks, which allow many work stations to share expensive electronic equipment, are dramatically improving office efficiency.

PHOTO: XEROX CORPORATION

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COMMENTARY

America's Gray Wave Of The Future

By Aram Bakshian, Jr.

Odd, isn't it, that the oldest continuous democracy in the world should be so obsessed with staying young? As a foreign visitor noted over a century ago, America's oldest tradition has always been its youth. Yet, day by day, as a society, and as individuals, we are growing older. In 1985, 31 percent of our population was already over 45. By the year 2000 nearly half of us will be, and the over-65 group alone will number more than 36 million—1½ times the entire population of Canada.

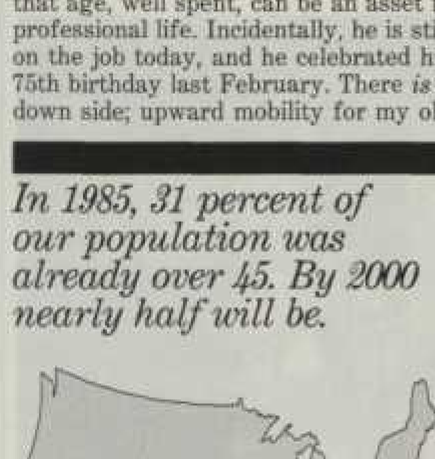
Like it or not, the wrinkling of America is well under way, and not all the diet cola, Lean Cuisine, health spas and Grecian Formula in the world can turn back the gray tide. Besides changing the face of American society, this will alter the American marketplace on both the consumption and production ends. As the baby boomers grow old, the whole balance of merchandise, services, skill demands and investment opportunities will also shift.

As with all big changes, the gradual transformation of today's Pepsi generation into tomorrow's prune juicers is neither good nor bad; it is a simple reality. Like it or not, the growing dowager hump in the population curve will mean ever-increasing pressures at the very time when the number of young Americans entering the ranks of earners and taxpayers will be declining.

Such were the semigloomy ruminations rattling through my forehead a few mornings ago when I celebrated—if that's really the word for it—my 42nd birthday. The gloom factor may have been aggravated by a mega-case of the flu. But it seemed fair to assume that turning 42 with the flu was a reasonable facsimile of turning 65 without it. Not much to look forward to.

Until I remembered an old—and I do mean *old*—boss of mine, a major executive I had worked for during three grueling years. In that time, as head of one of the world's biggest enterprises, with interests around the globe, he tackled crisis after crisis with success and a deceptively easy grace—without losing sight of his long-term principles and goals. Working with him convinced me that age, well spent, can be an asset in professional life. Incidentally, he is still on the job today, and he celebrated his 75th birthday last February. There *is* a down side; upward mobility for my old boss ended abruptly five years ago when he reached the top of the company tree, and he will face mandatory retirement in 1988. But he has already shown the way for millions of future senior citizens.

In 1985, 31 percent of our population was already over 45. By 2000 nearly half will be.



Mandatory retirement aside, things are getting better. For example, fewer than one in 10 surviving members of my old boss' generation went to college; more than one in four of today's young people will attend. Educationally, at least, this generation will be more prepared for its senior years.

On the other hand, only 12 percent of my boss' contemporaries still hold jobs. Unless the trend toward increased supplemental retirement savings such as IRAs and Keoghs spreads, however, a larger percentage of tomorrow's seniors may have to work just to make up for likely cuts in Social Security, Medicaid and related benefits. Will they—and "they" will eventually be "us"—measure up? If my old boss is any indication, the answer is yes. More and more of our over-65 population remain fit, active, alert and adaptable. The experts have even invented a new name for them: the "young old."

Two thirds of Americans my old boss' age now enjoy good health and, according to the National Institute of Aging, while mental capacity for the healthy elderly is different, in some ways it is superior. Although the mental energy and alacrity of youth may wane, "other powers are gained. For example, the vocabulary and specialized knowledge of a 75-year-old is on average greater than that of a person in his 20s."

This is certainly the case with my old boss. I had to draft and edit scores of speeches for him and, again and again, his revisions included new insights and approaches drawn on a longer personal range of experience.

I recall one tense meeting when a particularly smug, under-40 staffer condescendingly reminded the boss that the yuppie audience he would be addressing the next day was a sophisticated one. "Remember," he said, "you'll be talking to members of a generation that was born into the space age, high tech and the bomb."

"Well," the boss chuckled, "remember that it was *my* generation that invented all those things in the first place. I think I'll manage."

And he did.

As you may have guessed, my old boss' name is Ronald Reagan. Remarkable though he is, he is by no means unique. History's honor roll is full of men and women his age and older who have proven the value, as yet largely untapped, of the so-called elderly.

Perhaps some of the Cassandras prophesying geriatric disaster for American society are themselves deaf—and more than a little blind—to the resiliency and potential of older Americans. Growing old just isn't what it used to be; thanks to affluence, medical progress and more sensible living habits, the aging process has gone on daylight saving time. The "young old"—36 million of them by the year 2000—will exert a growing influence on American life, politically, economically and socially. NB

Guest columnist Aram Bakshian, Jr., has served as an aide to three Presidents, most recently as director of speechwriting to Ronald Reagan from 1981 through 1983. He writes and broadcasts frequently on political, economic and cultural subjects.

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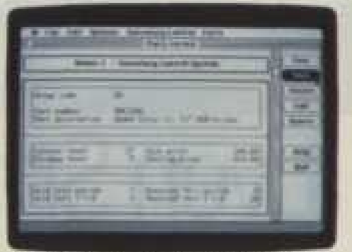

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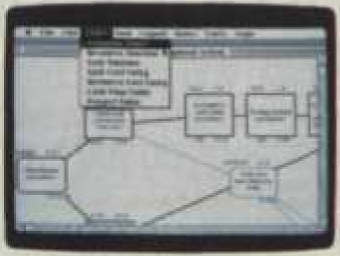

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COMMENTARY

Letters

Coping With Liability Costs

As a lawyer and the chief executive officer of an insurance company, I believe I have a unique perspective on the current liability insurance crisis described in "Liability: Trying Times" [February]. It goes hand in hand with the professional liability insurance crisis facing lawyers.

It is all too easy to blame lawyers and our system of jurisprudence for the situation in which we find ourselves. Neither is to blame.

The blame rightfully belongs with the people. Not for exercising their right to sue for damages when they believe they have been harmed, but for serving on juries which set excessive awards. After all, the lawyers can ask for the moon, but they do not decide the punishment. The legal system is only to blame to the extent that appellate court judges do not have the intestinal fortitude to overturn outlandish jury verdicts.

Michael J. Rooney
Executive Vice President
Attorneys' Title Guaranty Fund, Inc.
Champaign, Ill.

Following up on your recent coverage of product liability, I would like to recount its ravages on one of America's most affected industries: aircraft manufacturers.

Since 1981, our product liability insurance costs have increased an average of 500 percent. For some companies, the increase is 2,000 percent or more. Aircraft manufacturers paid $135 million for product liability coverage in 1985, some $70,000 per aircraft produced, compared with $2,111 in 1972 and $51 10 years earlier. Adding in the makers of engines, electronics and parts, the industry tab was about $200 million last year.

Contrary to stringent cost control everywhere else, product liability costs are out of control, despite a vastly improved general aviation safety record. Product liability's effect: higher aircraft prices, a smaller market, 50 percent unemployment in the industry and just 2,000 airplanes delivered in 1985 for the entire U.S. general aviation industry—the supplier of personal, business and commuter planes.

Edward W. Stimpson
President
General Aviation Manufacturers Association
Washington

As a small business owner, I am very concerned about my liability coverage. Like many of the other companies, mine cannot afford insurance, but it also cannot afford to be without it.

I feel there must be a drastic change in lawsuits. There should be a maximum amount of money anyone may sue for. If a plaintiff loses the suit, he or she should pay all expenses of the defendant, plus half of the amount sued for. Then a person might think twice before bringing suit.

Richard L. Van Wey
President
Van Wey Sand and Gravel, Inc.
Newark, Ohio

The real liability problem was hardly touched. The problem is, we have lawyers in Congress making laws for the benefit of lawyers. The best way to accomplish this is to elect non-lawyers to Congress.

Herschel L. Powell
Herschel L. Powell & Associates
Memphis

It would appear the time has come to establish a monetary value for a human life. In a society with as complex a system of laws as ours, based on highly technical points of responsibility and fault, why should a company be liable in court for damages based on the emotional mood of a jury? Is there any justification for a jury to decide a life is worth $10 million if lost in an airplane crash or $20,000 in an automobile accident?

Stephen C. Brown
Owner
Citrus County Sheet Metal
Inverness, Fla.

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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THE NATION'S BUSINESS

Business Outlook

Optimism Replaces Uncertainty

Plunging oil prices and soaring financial markets have set the stage for a sharp pickup in the economy. Most economists anticipate that faster growth will bring with it a further easing of inflation, falling interest rates and rising employment.

Those economists say this combination of circumstances is almost without precedent in the fourth year of an economic expansion, leading many to predict that the expansion will continue through 1987.

The uncertainty that clouded many business forecasts made just four months ago has been replaced by unrestrained optimism. Last fall General Electric Company predicted little improvement in its businesses this year. Now, says GE Chairman and Chief Executive Officer Jack F. Welch: "It is difficult for me to believe how quickly things have begun to turn around. In the five years I've had this job, I've never seen an atmosphere so promising for a renaissance in American competitiveness."

Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce, now forecasts a 5 percent growth in the economy this year, compared with his initial expectation of 3.7 percent. The sharp drop in crude oil prices and deficit reduction action by the administration and Congress are key factors in the brightened outlook, Rahn says.

Not all economists are ready to jump on the bandwagon. S Jay Levy, president of Levy Economic Forecasts, a Chappaqua, N.Y., consulting firm, cautions: "There is a good chance of a downturn before the end of the year." His gloom is based on high levels of consumer debt and on worry that reduced government spending could depress demand.

Indicators of business and consumer sentiment belie those concerns. A National Association of Purchasing Management survey of 250 industrial companies shows that new orders written in January registered their biggest monthly gain since June, 1984. Meanwhile, consumers remain "very confident" about the future, according to the Conference Board, a New York-based business research organization.

'86 Forecasts: Encouraging Signs

	Growth—gross national product[1]	Inflation—Consumer Price Index[1]	Unemployment—annual average rate	Short-term interest rates—average 4th quarter
Blue Chip Economic Indicators (average of 50 forecasts)	3.5%	2.9%	6.9%	10%[2]
U.S. Chamber of Commerce	5.0%	2.5%	6.5%	6.2%
Harris Bank & Trust Company, Chicago	4.8%	3.0%	6.3%	6.1%
First Interstate Bank, Los Angeles	4.7%	4.8%	6.3%	7.6%
Joel Popkin & Company, Washington	4.5%	3.0%	6.5%	6.0%
Kemper Financial Services, Chicago	4.2%	2.9%	6.3%	7.5%
Security Pacific Bank, Los Angeles	3.7%	3.3%	6.5%	6.5%
Federal Reserve Governors and District Bank Presidents	3 to 3.5%	3 to 3.5%[3]	6.5%[4]	NA
White House Council of Economic Advisers	4.0%	3.8%[3]	6.7%[4]	NA
Average	**4.2%**	**2.9%**	**6.5%**	**6.7%**
Final '85 Results	**2.3%**	**3.5%**	**7.2%**	**7.2%**

[1] 4th quarter '86 over 4th quarter '85
[2] Prime interest rate
[3] Includes prices for all goods
[4] 4th quarter average

Five factors are chiefly responsible for improvement in the 1986 outlook:

• Increased consumer spending. Outlays for energy—gasoline, heating oil, natural gas and electricity—are going down, giving people more to spend on everything from food, apparel and housing to entertainment, vacations and hobbies. Rising stock and bond prices—the Dow Jones Industrial Average shot up 200 points in one four-week period earlier this year—increase individuals' wealth and thus help offset two factors that previously had cast doubt on their willingness to spend this year: a relatively high ratio of indebtedness to income and low savings rates.

In the fourth year of the recovery, the economy looks as if it is poised for an unprecedented spurt of growth.

W. Van Bussmann, chief economist for TRW, Inc., says 1986 will see GNP growth of 3.6 percent, compared with the 2.3 percent expansion last year.

First Interstate Bank Chief Economist Jerry Jordan says bank failures and a sharp fall in the dollar's value pose potential threats to the outlook.

• Higher investment in housing, business plant and equipment (except in the energy sector). Mortgage interest rates are at their lowest level in seven years, and that should spur home construction. Lower interest rates and corporations' growing ability to replace debt with lower-cost equity financing reduce capital expenses, and that could boost business spending.

• Restocking of manufacturers' inventories to meet the unanticipated rise in demand for goods.

• Growth in exports. Potential sales opportunities in key markets, such as Japan and West Germany, are looking much brighter now that lower energy costs are pushing up economic growth rates in all but a handful of oil exporting nations. In the last 14 months, a 25 percent decline in the dollar's value, relative to the nation's major trading partners' currencies, makes domestic goods more price competitive abroad.

• A growing likelihood that Congress will cut federal spending levels this year and reduce massive budget deficits. Until now, big deficits have kept interest rates higher than they otherwise would have been.

Many corporate planners are revising operating plans made just five months ago. Then, "cautious optimism" was the order of the day, recalls W. Van Bussmann, chief economist at TRW, Inc., a Cleveland-based conglomerate. Now he says: "If one could throw caution to the wind, I would be ebullient about the outlook."

Bussmann says growth in GNP will top 3.6 percent between the fourth quarter of 1985 and the last three months of 1986, compared with a dismal 2.3 percent rate for 1985. The current expansion's growth peaked at 6.6 percent in 1984.

This is not to say there are no risks ahead. GE's Welch says one "dark cloud" is possible enactment of some version of what he calls the "anti-investment tax reform bill" that passed the House last year.

Another threat on the fiscal policy side comes from higher energy taxes. Rahn says it would be "folly" to enact either a new levy on imported oil or across-the-board energy taxes. "An import fee would deny Americans the benefits of lower inflation, reduced unemployment, lower interest rates and increased economic growth," he says. Revenues from such taxes would bring in less money than would be generated by higher growth, Rahn says.

Jerry Jordan, chief economist and a senior vice president of Los Angeles-based First Interstate Bank and former member of the President's Council of Economic Advisers, lists two additional worries—a "free fall" in the value of the dollar and a loss of confidence in U.S. banks.

Federal Reserve Board Chairman Paul Volcker addressed these concerns in recent testimony before congressional committees when he warned that further declines in the dollar's value could spark a new round of inflation. He also reminded Congress that maintaining confidence in the banking system is all-important.

That confidence could be shaken by failure of a major bank or banks that have too many nonperforming loans to the domestic energy and agricultural sectors or to oil exporting nations, such as Mexico and Venezuela, whose ability to service those loans has been weakened by falling oil revenues.

Richard Berner, a vice president of Salomon Brothers, Inc., a New York-based investment banking firm, says if crude oil prices hover around $15 a barrel, as now seems possible, the nation's annual energy bill will be $60 billion lower than it was last year. He says that will boost economic growth by about one percentage point.

Joel Popkin, president of a Washington-based economic consulting firm bearing his name and who was once the Labor Department's chief price statistician, expects consumer prices to rise just 3 percent in 1986. He says the index of prices manufacturers pay for raw materials and semifinished goods will show no increase, largely because the energy component of that index will drop 12 percent.

Lower energy prices will also result in long-term economic benefits, says Robert Genetski, chief economist at Chicago's Harris Bank & Trust Company. He says the increase in energy prices during the 1970s was one reason why productivity stopped rising.

The process works in reverse, too, he says: Lower energy costs will shift investment from equipment that cut energy consumption to tools and machinery that cut production costs, thereby boosting productivity and raising living standards.

THE NATION'S BUSINESS

Washington Roundup

A tough road on liability; a proposal on the business transfer tax; Gramm-Rudman bites Congress.

No Early Solution To Liability Woes

Despite a flurry of activity, neither Congress nor the Reagan administration is likely to produce a definitive solution this year to Americans' liability woes.

Lawmakers and executive branch officials are well aware of the severity and scope of difficulties that companies, professionals and even municipalities are having with the cost of liability insurance coverage and sometimes with obtaining or renewing coverage.

In New York, for example, the tramway that carries 3,000 commuters between Roosevelt Island and Manhattan daily shut down briefly recently after an insurance underwriter refused to renew liability coverage without a fivefold premium increase, an amount the city balked at paying.

However, proposed solutions, which range from civil justice and tort law reform to federal regulation of the insurance industry, are so sweeping that they will take time to evaluate.

Congressional committees and subcommittees have been holding hearings, and the President has appointed a high-level study committee on the complex issue.

"With the current political atmosphere of preoccupation with effects of the Gramm-Rudman-Hollings deficit reduction law, I'd say it would be impossible to gain action this year," said Sen. John D. Rockefeller IV (D-W. Va.).

Rockefeller is a member of the Senate Commerce, Science and Transportation Committee, which has held several liability hearings and whose chairman, Sen. John C. Danforth (R-Mo.), has said a solution to this problem is Congress' No. 1 priority.

Business is hopeful, however, that Congress will address components of the liability crisis before the November elections.

Danforth has promised early action on a bill, S. 1999, that would replace the patchwork of state product liability laws with a federal statute and allow injured persons to recover damages without going to court.

New York City recently shut down temporarily the Roosevelt Island-Manhattan commuter tramway when liability insurance premiums increased fivefold.

PHOTO: © 1981 PETER B. KAPLAN

"A uniform federal product liability bill would go far in alleviating the liability crisis, which underlies the problem of insurance availability," Rick Berman, senior vice president of S&A Restaurant Corporation, recently told the Commerce Committee.

An 8-8 tie vote in the committee last year killed a business-backed product liability bill introduced by Sen. Bob Kasten (R-Wis.) that was similar to S. 1999.

President Reagan has assigned Attorney General Edwin Meese III and other senior administration officials to study the liability problem, but this group is not apt to recommend corrective federal legislation in the near future.

Until it does, Meese will continue attempts to jawbone state and federal judges and state legislatures into line.

Judges are increasingly "allowing intolerable awards" that "provide windfalls for plaintiffs and [impose] strict liability where it was never intended," Meese recently told Washington-based business representatives meeting at the U.S. Chamber of Commerce.

Alternative Tax Bills

The threat that a "tax reform" measure that would hinder investment will clear the Senate Finance Committee this spring has goaded a number of senators into proposing alternative tax bills aimed at boosting savings and investment.

Chief among those alternatives are three proposals: A bill sponsored by Sen. William V. Roth (R-Del.) would speed up depreciation but would levy an 8 percent tax on business transactions; a measure co-sponsored by Sens. Dennis DeConcini (D-Ariz.) and Steve Symms (R-Idaho) would eliminate the double taxation of corporate dividends; a third measure, pushed by Sen. William Armstrong (R-Colo.), would let individuals choose between the current income tax law or lower rates with no deductions, while making no major changes in business taxes.

Business tax lobbyists are preparing to follow either one of two strategies, if Senate Finance Committee Chairman Sen. Robert Packwood (R-Ore.) produces a bill that makes only minor modifications to the measure passed last December by the House, over the objection of many business groups.

One strategy is to kill consideration of any tax reform measure this year. A second strategy would be to substitute for the Senate Finance Committee bill one with the pro-growth alternatives.

Roth's proposal would allow companies to write off half the cost of new equipment in the first year. The balance would be depreciated at rates proposed last May by President Reagan. Roth says a business transaction tax—it would raise $364 billion in new revenues over five years—is the only tax that could generate enough money to offset revenues lost through generous treatment of business investment.

The DeConcini-Symms proposal would create a combined tax on individual investment income and business profits, and thereby eliminate the double taxation of corporate dividends, long considered harmful to capital formation.

Are you and your business ready to survive the unexpected? Take this test and see.

1. If one of my partners died, the business could buy back his share from the heirs.

yes ☐ no ☐ not sure ☐

2. My own family is completely protected financially if my death or disability should cause a loss of income from my business.

yes ☐ no ☐ not sure ☐

3. If one of our company's key employees died or became disabled, the business could continue to function without financial hardship.

yes ☐ no ☐ not sure ☐

4. If a key employee were being wooed by another firm he or she would think twice about leaving because of our attractive executive compensation benefits.

yes ☐ no ☐ not sure ☐

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THE SMALL BUSINESS SURVIVAL TEST

Deficit Cuts Come Home To Roost

Like other representatives and senators and their staffs, Sen. Jim Sasser (D-Tenn.), right, is feeling the pinch of the Gramm-Rudman-Hollings balanced budget law.

PHOTO: DENNIS BRACK—BLACK STAR

Congress' determination to balance the budget is being put to the ultimate test, and Americans are waiting anxiously to evaluate the results.

Representatives, senators and congressional committees face the abhorrent task of cutting their own spending to comply with the Gramm-Rudman-Hollings balanced budget law's first automatic "sequestrations," which took effect March 1.

The legislative branch, like all other parts of the federal government, must reduce planned fiscal 1986 spending 4.3 percent—even if the Supreme Court rules this summer that parts of the Gramm-Rudman-Hollings law are unconstitutional.

This 4.3 percent will mean different things to different offices and committees, however, because the House, Senate and the rest of the federal government use different fiscal years.

The House Administration Committee has determined that House committees must reduce planned outlays about 10 percent for the period January 1-September 30.

In the Senate, the Rules Committee is still determining the magnitude of cuts required.

Salaries of representatives' staffs must be cut 10.5 percent, from $296,010 to $265,000. And representatives' expense funds, which range between $100,000 and $370,000, depending upon such things as the district's distance from Washington, must be cut 4.3 percent.

In the Senate, January 1-September 30 staff salaries also must be cut 4.3 percent. Expense cuts have not been determined yet.

Individuals and committees will comply with required reductions in varying ways, ranging from staff furloughs and use of unpaid interns to reduced telephone calls, mailings and travel.

But representatives and senators are united in contending that—because of limits on their resources—Gramm-Rudman will force them to legislate more slowly, with less knowledge and, perhaps, will result in less legislative action altogether.

The American people can then decide whether these reductions in government are good or bad for them.

Capitol Update

Balanced Budget Update

A judicial assault on the "sequester" provision in the Gramm-Rudman-Hollings deficit reduction law is giving momentum to a constitutional amendment that would prohibit Congress from indulging in red-ink spending in future years.

The Supreme Court is expected to rule this summer on the validity of a Gramm-Rudman provision requiring automatic across-the-board spending cutbacks if Congress fails to adhere to deficit targets. A special three-judge federal panel recently determined that this provision grants power unconstitutionally to the government's executive branch.

In the meantime, Senate Majority Leader Robert Dole (R-Kans.) has pledged consideration of such a balanced budget amendment. And Reps. Larry E. Craig (R-Idaho) and Charles W. Stenholm (D-Tex.) have renewed efforts to gain co-sponsors for the amendment in hopes of forcing a floor vote on it.

Productivity Report

"The United States' long-standing position as the world's most productive nation is in jeopardy," says Carl G. Thor, senior vice president of the American Productivity Center, a nonprofit research and education organization.

America must boost productivity growth, particularly in its service industries, or suffer continued erosion of its standard of living relative to other industrialized nations, Thor reports in *Productivity Perspectives, 1986 Edition.*

To obtain a copy, write 123 North Post Oak Lane, Houston, Texas 77024 or call (713) 681-4020.

Oil Import Fee

The Senate Finance Committee's first-draft tax reform bill would not impose a new fee on imported oil, according to Chairman Bob Packwood (R-Ore.). Fees of $5 to $22 a barrel have been proposed by some senators as a "painless" means of ensuring the "revenue neutrality" of the Finance Committee measure.

Business generally opposes oil import fees and increased gasoline taxes as detrimental to economic growth.

Small Business Report

The pressure to eliminate the SBA; cracking the Japanese market; help from the IRS; uncertainty over tax reform.

SBA On The Spot—Again

Will the Small Business Administration—this is its Washington headquarters—become part of the Commerce Department? Yes, if a Reagan plan is enacted.

PHOTO: T. MICHAEL KEZA

For the second time in as many years, deficit-conscious officials at the White House Office of Management and Budget are trying to eliminate the Small Business Administration.

Last year's proposal to ax the 33-year-old agency was hooted down by critics in the small business community and rejected by Congress. The new strategy is to move the SBA to the Commerce Department and allow the Treasury Department to raise money by selling the agency's $12.5 billion small business loan portfolio.

Commerce Department officials say small business interests would have more clout in policy making if they were represented by a member of the President's cabinet, instead of the head of a low-level independent agency.

That plan has plenty of critics, though. Says James C. Sanders, SBA administrator until his resignation last month: "It doesn't save any money to simply transfer programs to the Commerce Department. Most small business associations think an independent agency serves their interests better."

A slimmed-down SBA would focus on helping minority-owned and other small firms get their $23 billion annual share of government contracts. The agency's small business advocate would continue to press small firms' interests at the federal level.

Most SBA lending and loan guarantee programs, however, would be terminated by the latest plan, while firms that got training and management assistance via a network of local SBA offices—500,000 did last year—would have to go elsewhere for such help. Those reductions would cut the SBA budget from $288 million this year to $140 million in the 1987 fiscal year.

Says Sen. Lowell Weicker (R-Conn.), Senate Small Business Committee chairman: "The SBA surely will take its cuts, but targeting this agency for extinction is the wrong approach to wiping out the national debt."

Sanders is careful to avoid criticism of White House budget priorities. He says: "Although I am hopeful of success for the President's budget, I can't imagine that Congress will do anything much different on the SBA from last year."

Help With The Japanese Market

Selling in Japan, the world's second largest market, is a daunting prospect for small and mid-sized companies that do not have the resources of well-heeled firms. Language, culture and unfamiliar business practices can make the Japanese market a hard one to crack.

Recent events, however, may prompt some companies to look anew at that market: The dollar's buying power, in relation to the yen, has gone down about 30 percent, making U.S.-made products that much more competitive in Japan; and consumers there have been overcoming long-standing cultural barriers to buying foreign-made products.

To make it easier for smaller companies to sell products or services in Japan, Trans Pacific Connection, a New York-based unit of Shinnihon Kohan Company, Tokyo, has been set up as a go-between—arranging "partnerships" between would-be American exporters and Japanese firms or investors.

Mike Maki, general manager of Trans Pacific Connection, explains that small and midsized U.S. firms selling consumer products, for example, can find it difficult to access Japan's tradition-bound distribution network, something he says can be overcome through distribution arrangements with Japanese partners. Other types of joint arrangements include licensing and co-venture agreements.

"There are also lots of good franchising opportunities in Japan and lots of money to invest," says Maki. Many small U.S. companies do not know where to get local financing, and Japanese investors do not know how to make contact with American small business, he says. "We can find those partners."

Trans Pacific Connection is starting a monthly magazine that alerts Japanese firms to new business ideas from small companies in the United States and Canada. The company gets those ideas from small business firms it is courting in America. Trans Pacific Connection can be contacted at 800-221-0212.

An Ombudsman For Taxpayers

Jack G. Petrie, the IRS taxpayer ombudsman, deals with problems that cannot be resolved through normal channels.

PHOTO: JEFFREY MACMILLAN

For many small business owners and proprietors, nothing is more intimidating than dealing with the Internal Revenue Service. Getting unanswered letters answered, finding out why expected refunds are late or receiving an unexpected bill—these are a few of the problems that can crop up.

The IRS will process between 160 million and 170 million tax returns this year, in addition to millions of letters, forms and notices that it sends out. "We are talking about a lot of pieces of paper," says Jack G. Petrie, IRS taxpayer ombudsman and head of a little known unit that last year helped out 507,000 taxpayers.

"Individual taxpayers, sole proprietors and large corporations can all experience glitches in dealing with the IRS in complying with the tax laws," Petrie says. "We deal with those problems that don't seem to get resolved through normal contacts in regular channels at the first level of inquiry."

He says federal employment taxes are a big source of business complaints. Typically, federal tax deposit coupons are improperly filled out or transcribed incorrectly, or credits are made to the wrong account. In those circumstances, companies may get billed for amounts they may not owe, and that is when problems can start.

Taxpayer ombudsmen working from the regional IRS service centers—district IRS directors can steer you to them—can freeze an account, review it and, usually within 30 days, get a resolution of the problem, Petrie says.

One thing the ombudsman cannot do, he says, is interfere in situations where the normal appeals process examines deficiency judgments.

Problems With Uncertain Tax Law

Uncertainty over the date that provisions of various tax proposals before Congress take effect is holding up business investment—to the extent that it could slow down the economy this year.

Many small companies are postponing spending for tools, equipment and structures, says Richard Rahn, U.S. Chamber of Commerce chief economist, because they cannot figure out the rate of return on some investment.

A tax bill passed by the House last December would limit the 10 percent investment tax credit to equipment ordered before last September 25, or to such equipment placed in service before the end of 1985.

The House bill would change accounting rules limiting the ability of an acquiring company to revise the value of assets purchased from another firm, as of Nov. 20, 1985.

Members of the Senate Finance Committee say they would prefer to have all such dates postponed until Jan. 1, 1987.

Says David A. Berenson, a tax expert at the national accounting firm of Ernst & Whinney: "American business can live with bad tax law. But it can't live with uncertain tax law."

Rahn says Congress should make tax proposals effective on some future date, rather than retroactive to some past date.

Low Technology Research Funds

In the first year of a five-year program designed to encourage innovation by smaller companies, most research and development contracts awarded went to firms less than five years old, having fewer than 50 employees and with annual revenues under $5 million.

The federal program, known as Small Business Innovation Research, has suddenly become a major source of seed capital for start-up companies, says Timothy P. Flynn, a senior manager for Peat, Marwick, Mitchell & Company's high technology practice in Minneapolis. The national accounting firm recently completed a survey of companies that received 1,800 such contracts.

Federal R&D contracts with small private sector companies are funding development of such things as low-flow separators for oily bilge water, new ways to control volatile emissions of organic compounds and a fish food consumption monitor.

"This program is an excellent opportunity for emerging science and technology-based companies to get started," Flynn says. R&D contracts worth about $860 million will be awarded by 12 federal agencies over the next 18 months. Firms supplying low-technology products and services to the federal government also participate in the program.

R&D funds totaling about 1.25 percent of overall federal R&D spending are earmarked for small companies under the program, which expires in 1988. It began in 1983, after officials recognized that small firms were getting squeezed out of federal research contracts. Historically, most major inventions have been made by small companies, and it is estimated that R&D spending by small companies is more than twice as effective than is such spending by big companies.

Robert E. Berger, Small Business Administration director of innovation and technology, says the SBIR program is working as intended, though it is too early to say how many start-ups that have received their initial funding as a result of SBIR contracts will become viable businesses.

Contracts of up to $50,000 are available for feasibility research and up to $500,000 can be provided for R&D activities.

Innovators

The value of humor in business; toeing the line while managing by walking around; this dummy's no dummy.

By Sharon Nelton

A Guide To Life In The Jungle

ILLUSTRATIONS: JERRY DADDS—EUCALYPTUS TREE STUDIO

William G. Zikmund, professor of marketing at Oklahoma State University, attests to the value of humor in business life. He says it is the best protection you have for survival in the organizational jungle.

To prove his point, he has put together the paperback *A Corporate Bestiary, Or How To Spot the Animals in Your Organization* (Holt Rinehart Winston, $4.95), with illustrations of the beasts in question by Nancy Blackwood.

"It is important for the wayfarer to know which corporate beasts are playful and friendly and which are unpredictable and dangerous," contends Zikmund.

A sampling from Zikmund's zoo:

- The Workhorse. "Trained to work harder not smarter, comes in early and leaves late. The Workhorse has a very short nose, because it keeps it to the grindstone for long periods of time. It frantically goes through the same motions over and over without any thought." (The Workhorse is pictured as a beast of burden on rocking horse rockers.)

- The Conventioneer. "Veterinary psychiatrists say this animal is schizophrenic. It has one personality on its domestic turf and a totally different personality when it inhabits foreign turf."

During its annual migrations to such watering holes as California or the French Quarter, the Conventioneer dramatically changes its eating, drinking and sleeping habits.

- The Up-and-Comer. "In its quest for preeminence, the Up-and-Comer displays great ingenuity to hide its own weaknesses behind a subordinate's talent. . . . The subordinate's relationship with the Up-and-Comer is very critical. Like the praying mantis who eats its mate after sex, the Up-and-Comer sends the unsuspecting subordinate heading off to nowhere when it is no longer useful."

- The Vanishing Secretary. "This is an endangered species. The dictating machine, word-processing equipment and the Women's Liberation Movement have hastened its destruction. The entire disgruntled breed may soon be wiped out."

Walking A Fine Line

Richard F. Wright is a staunch supporter of the "management by walking around" philosophy popularized in the book *In Search of Excellence*. However, he has learned that when he walks around, he has to do it carefully.

As vice president of research and development for Mead Imaging, a division of Mead Corporation, the paper products company headquartered in Dayton, Wright heads a team of more than 50 scientists and technicians charged with new product development.

Several years ago, however, when his staff numbered about 20, he recalls, "I decided that my constant appearances in the labs and hallways might be getting in the way of what I hoped would be the future leaders of the group, who now were learning how to run their own project teams." Wright didn't want to appear to be meddling, so, "with great reluctance, I started to spend more time in my office and less in the laboratory area."

Inside of two weeks, however, some of his people were asking questions like, "What's the problem?" "You quitting? Where have you been?"

"They hadn't seen me as meddling at all," Wright says. He quickly returned to his former practice of spending most of his time with his subordinates on their turf.

The "walking around" mentality enhances group communications, he says—a real plus in an environment where people are expected to be innovators. Since Wright shared openly, others did the same. But he also found that because he was the manager, subordinates sometimes took his casual statements as the "truth" or as decrees. His position of authority, in other words, could lead to misunderstandings. "The manager," he learned, "has a heavy responsibility, therefore, to manage his words as well as his group."

On one occasion, for example, he disagreed with the focus of an experiment. He thought he was only presenting his point of view as a colleague. "Several of the younger staff, however, saw my

Walking A Fine Line

disagreeing as forbidding and stopped their work in this area," he says. "As it turned out, I was wrong, they were right, and the work was delayed."

Now he tries to walk a very fine line, knowing that subordinates may see him as a pest when he just wants to involve himself, or believe that he is forbidding when he is merely disagreeing, demanding when he is only suggesting or demeaning others when he singles out an individual for praise.

"I try to be constantly on the alert for possible misunderstandings," he says, "and, more importantly, for instances where I actually cross the line."

Loosening Up To Get Things Done

Puppets can act as the catalyst to defuse tense situations and get sensitive issues on the table in ways that elude ordinary human beings, says Dale Brown, who uses one in his company for just that purpose.

Chip Martin occupies a very important position at the Waukesha, Wis., public relations firm, Jones, Brown & Martin, Inc. He's the corporate dummy.

Really.

That is indeed his name on the company door, but frankly, without Dale L. Brown, he's nothing. Brown, one of the firm's principals, is a ventriloquist, and Chip . . . well, he's a puppet.

Brown was 12 when he bought his first dummy with money he earned from a paper route, and he has been practicing ventriloquism ever since. Today he is able to combine his hobby with marketing communications and public relations. And he is an advocate of mixing humor with business.

"Humor is a marvelously powerful instrument," he says. "It can provide welcome relief, attract attention and put seemingly ivory-towered corporate executives in a more personal, positive light in the eyes of employees." When employees leave a corporate meeting feeling good, those feelings often get translated into a positive attitude toward the company and its management, he says.

Brown has found that ventriloquial puppets "can act as the catalyst for such feelings." He has used Chip, his star dummy, at sales conferences and management meetings, where Chip defuses tense situations and gets sensitive issues on the table in ways that elude ordinary human beings.

Once, at a meeting of managers of the construction equipment company, J I Case, Chip played the role of a job seeker being interviewed by the company's real (but well-rehearsed) general manager. Chip asked how soon he would get a raise.

The horrified ventriloquist said, "Chip, you don't even have a job! Don't you think it's a little early to be talking about a raise?"

"Stay out of this," said Chip. He turned to the general manager. "How about it?"

Chip was told that Case then had a salary freeze in effect.

"Well, I can understand that a lot of companies have done that," said the hopeful puppet. "But, I mean, that wouldn't apply to me, right?"

To his dismay, he learned it applied to everybody. Brown says the performance permitted the general manager to present the company point of view without giving yet another 20-minute speech. Chip represented the employees, expressing some of their fears and frustrations.

And Chip is not afraid to poke fun at the brass, offering a vent for employees because he can say things they can't.

Managers tend to sit together at meetings, Brown points out, and often, when he and Chip start a program, Chip will look at the management group and ask who those people are. Brown tells him that they are the company's executives. Chip looks at him and says, "Shows you all the clowns aren't in the circus." Employees love it.

JB&M is a full-service agency, and the puppets are only a small part of what it offers to such clients as Kohler, Leverenz Shoe Company and First Financial Savings Association, the largest S&L in Wisconsin.

Brown points out that humor is not appropriate for every situation. For the most part, however, he thinks a business is wise to "loosen up."

"Other things being equal, the company with a visible sense of humor is usually the type of company others prefer doing business with and employees enjoy working for," he says.

Folks at JB&M have a number of reminders not to take themselves too seriously. Brown and company President Mel Jones added Chip's last name to the company title because "Jones and Brown" sounded too common.

As with many firms, there is a picture of the company bigwigs in the reception area. JB&M's is properly labeled "Founding Fathers," and there, seated at a conference table are Jones, Brown and the corporate dummy.

What She Forgot

The enthusiastic applause of 3,500 women filled three crowded ballrooms of the Sheraton Centre in New York when Debra J. (Debbi) Fields concluded her luncheon remarks at the sixth national conference of the American Women's Economic Development Corporation recently. In a style reminiscent of a cheerleader, the founder of Mrs. Fields Cookies had just told her audience, many of them would-be entrepreneurs, what it takes to start and run a business.

But when the applause died down, she jumped up to the microphone again and, smiling her trademark broad smile, said that she had forgotten the most important point about being an entrepreneur.

"You have to have fun!" she exclaimed. "Otherwise, life is like one long dental appointment."

Preceding this "encore," she told her listeners:

- "You must never be afraid of failure." Everybody will try to discourage you from starting a business, even your parents. "You will find more people in the world who will tell you that you can't do it than who will tell you that you can."
- "The word 'no' is completely unacceptable, especially when you go and ask for financing." Don't give up when one banker says no; go to the next and the next. "The most important thing is for you to believe in what you are doing. Absolutely *know* there are people out there who want to say yes."
- Respect your intuition. When she started her first store and found that customers were not flocking in the door, her intuition told her that people would buy her cookies if she went out of the store and gave them a free taste. "I thought I made the best chocolate chip cookies, and I wanted to get one in everybody's mouth."

Intuition also helps her and many of the employees in her 350 stores determine when the chewy cookies have baked just enough. She said "grown men" have told her that "you just *feel* the cookies are calling you from the oven."

Fields, who has three small daughters, also told her audience, "Being in business is easier than being a mother."

MANAGING YOUR BUSINESS

Tailored Services For Small Firms

By David M. Freedman

A business plan that took him a year to develop was getting Lee Crum nowhere when he showed it to banks and potential investors. Crum was seeking funds to increase his growing company's production capacity. What he was finding was polite refusals or terms he considered unreasonable. "One venture capitalist wanted 80 percent ownership in the company in return for his investment," he laments.

Crum, 39, is executive vice president of Reflectix, Inc., a manufacturer of radiant-barrier insulation with about $500,000 in sales in 1985. Demand was high for the Markleville, Ind., company's product.

Logically, there should have been little trouble finding an investor. Crum went for help to a consultant, Howard S. Wilcox, Jr., of Indianapolis, who develops business plans for small enterprises.

His doing so was part of a trend in which small and medium-sized businesses are increasingly buying services once sold primarily to big companies. The phenomenal growth of small business in this decade has led to a tailoring of such services to the smaller firms. In short, burgeoning entrepreneurial activity has fostered an industry of entrepreneurs serving entrepreneurs.

The combination is working out well for people like Lee Crum and Howard Wilcox. The Reflectix business plan lacked objective figures to make its projections look realistic, and, as a result, says Crum, "we had a difficult time figuring out how much money we really needed to raise."

Wilcox took four weeks to look carefully at the company and write a new business plan. Says Crum: "The plan depicted our business and its product, assets and market; where we were and where we'd been; and where we felt we could go with it, and what money was required. It gave realistic and attainable projections. It was concise, readable and organized—15 pages plus exhibits."

Wilcox not only produced the plan,

Lee Crum (left) had trouble finding financing to expand his insulation firm until he turned to consultant Howard Wilcox, who develops business plans for entrepreneurs.

PHOTOS: MARY ANN CARTER

Crum says, but advised Reflectix on how to use it. As a result, the company got a better hearing from some of the very people who had turned it down.

After a few months of negotiations, Reflectix raised $1 million in capital from a group of investors who took only a small piece of equity in the company. "I don't think it would have been possible to raise that much on such favorable terms without the help of someone like Howard Wilcox," Crum says.

Wilcox, 41, is one of an increasing number of professionals who specialize in providing small business services. After graduating from law school in the late 1960s, he cofounded a high tech firm. He and his partners sold the company five years later, and he then practiced law for eight years, serving small businesses exclusively.

His clients called on him for more than legal advice. "I was spending 70 or 80 percent of my time in services beyond the law," he says, "helping people write business plans, making financial projections, monitoring investments, brokering businesses and raising capital."

In 1983, noting increased venture capital activity and explosive growth of small business in the Indianapolis area, Wilcox left his law practice and created the Wilcox Group, Inc. (he is still the only employee) to assist start-ups and emerging companies in developing business plans. His clients range in size up to $5 million in sales; roughly half are high tech manufacturers, he says, and the rest include a wide variety of traditional businesses.

Wilcox chose the right time to become an entrepreneurs' entrepreneur, says Dennis O'Connor, chairman of the Capital Formation Committee of the Smaller Business Association of New England: "The 1980s is the decade of small business." O'Connor himself is in an ideal position to track the trend. His law firm, O'Connor, Broude & Snyder, is located on Route 128, the high tech corridor outside Boston, and his practice is devoted exclusively to emerging companies, mainly high tech.

Echoing many knowledgeable business observers, O'Connor contends that small business "has been the chief generator of new jobs and innovation so far in this decade." And statistics bear him out. According to Dun & Bradstreet, new incorporations set records in 1983 (600,400), 1984 (634,991) and 1985 (669,904).

Meanwhile, the supply of venture capital was on the rise. Between 1978, when Congress reduced the maximum capital gains tax rate, and 1984, venture capital firms increased disbursements to portfolio companies—mainly start-ups and young, emerging companies—more than 400 percent, according to Venture Economics, Inc., a venture capital reporting service.

Between 1980 and 1984—latest year for which data is available—the number of companies with fewer than 100 employees increased about 8 percent, and those with 100 to 499 employees rose 7 percent, while those with 500 or more employees actually declined, according to the Bureau of Labor Statistics. In the same period, the number of

David M. Freedman is a free-lance writer based in Knoxville, Tenn., who specializes in small business management and law.

In "the decade of small business," burgeoning entrepreneurial activity has fostered an industry of entrepreneurs serving entrepreneurs.

workers at companies with fewer than 100 employees shot up 10 percent, and the number at companies with 100 to 499 rose 6 percent. But workers in companies with 500 or more employees dropped 8 percent.

Two major reasons for the shift: Executives, scientists and engineers—particularly in the high tech field—have been leaving large companies and starting their own firms; and state and city governments have been encouraging new business development to counter effects of the 1981-82 recession.

As entrepreneurial activity flowered, support services followed.

Advising entrepreneur-scientists presents special problems to the consultant, who must be able to help them with business fundamentals but also understand high tech products and markets.

Robert Rudko, president of Laser Engineering, Inc., a Waltham, Mass., manufacturer of laser tubes and surgical laser equipment, was a scientist with no prior business experience when he started his company in 1981. A researcher at Raytheon, the giant defense and aerospace contractor, he needed expert advice before striking out on his own.

Rudko hired Dennis O'Connor and Neil Aronson, an associate in O'Connor's law firm. They advised him on standard entrepreneurial issues: giving appropriate notice to his employer, incorporating his business, protecting proprietary rights to cutting-edge technology, drafting employment agreements and setting up contracts for suppliers and customers.

"But I relied on them for more than legal advice," says Rudko, whose company now has 20 employees and $2.5 million in annual sales. "They helped me recruit a controller and outside directors. They introduced me to a marketing consultant, a patent attorney, sources of financing, suppliers and even customers. And they helped me structure deals with investors through four rounds of financing."

Indiana is a prime example of what can happen when a state encourages new business development.

In 1981 the legislature created tax incentives for venture capital firms to invest in small, entrepreneurial businesses. It also formed the Corporation for Innovation Development, a private, nonprofit corporation that provides funding to venture capital firms. In 1982 the state formed the Corporation for Science and Technology to foster technological innovation through grants to entrepreneurs. The following year it formed the Indiana Institute for New Business Ventures to provide management training and assistance to small businesses.

Linda Wolfe (right) specializes in long-range planning, financing, and sale and acquisition of businesses. Clients C. Ann Christy and A.C. Christy work on their business plan with Wolfe in her dining room.

In 1983 a group of 80 banks in the state established the Indiana Statewide Certified Development Corporation, a private, for-profit corporation which was certified by the Small Business Administration to help small companies obtain financing for buying machinery and other equipment.

Entrepreneurial activity in Indiana was heating up quickly. Arthur Young & Company, the Big Eight accounting firm, started an entrepreneurial services group in its Indianapolis office in 1982, a year earlier than planned. Greg Erickson originally was the only accountant in the group, devoted exclusively to small businesses. Now he heads five other accountants—out of 40 accountants in the Indianapolis office.

Arthur Young started a national entepreneurial services program, as did several other Big Eight firms, in the 1970s, and now has small business specialists in all of its 84 U.S. offices. "It's one of the fastest growing areas of the firm—30 percent per year in new clients," says Dan Garner, the program's national director.

Garner says small companies want more varied services than do large corporations that have plenty of management expertise in-house. "In addition to the standard audit, accounting and tax services, entrepreneurs need a broad range of advisory services," he says. "We help them with long-term strategic financial planning, we introduce them to and help them select sources of financing, and we advise them about inventory management systems and cash forecasting. We also help owners with estate, compensation and succession planning."

Among a new wave of professionals

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moving to help Indiana small businesses are Linda Wolfe and Robert M. Koeller. Wolfe left her job as a business management specialist with the SBA in Indianapolis in 1983 to become a consultant, limiting her clients mainly to entrepreneurs and companies with less than $5 million in revenues. She helps in long-range planning, financing, and sale and acquisition of businesses.

Wolfe also offers outplacement training for laid-off workers who want to start their own businesses. She was recently hired by Cummins Engineering Company, a Columbus, Ind.-based manufacturer of diesel engines and industrial equipment, to present entrepreneurial workshops to laid-off workers.

Koeller, an Indianapolis attorney with a background in securities and business law, narrowed the focus of his practice to start-up and emerging companies a few years ago. "The universal problem of developing businesses is lack of adequate capital," he says.

Most of Koeller's clients are entrepreneurs with only an idea, or companies that typically are less than a year old and have a few hundred thousand dollars in annual sales. Generally, they have the potential to generate revenues up to $10 million after three or four years, he says.

Koeller says he may give an initial consultation free to an entrepreneur trying to start a business. "I tell most of them to go back to the drawing board," he says. "I'd guess about half come back eventually with more detailed plans or more realistic projections."

He spends much time advising clients who may never be able to pay his fee. "But if their companies turn out to be successful, they become an excellent source of future business," he says.

Entrepreneurs and small business owners are delighted with such support. Relying on outside experts and service providers who understand their needs lets them operate with lean staffs and hold down expenses.

Jeff Grossman, owner of the Back Store, a Needham, Mass., retailer that sells products to help prevent back problems, had only six employees. He wanted to franchise but could not afford to hire a full-time financial officer.

Grossman found what he needed in Jim Koehlinger, a certified public accountant who serves as a part-time chief financial officer for six different small businesses in the Boston area.

Koehlinger spends about four hours a week at Grossman's office and gives other advice by telephone. He set up the bookkeeping system and oversees it, generates financial information for vendors and current and future investors and helps with financial planning for long-range growth.

Occasionally, Koehlinger represents the Back Store in discussions with vendors and investors. "Having an outside financial adviser represent the company has advantages," says Grossman. "He gives them a more unbiased picture of the company and our needs than I would, and that helps build a good relationship with those people."

Some small business services are specialized but serve a larger clientele. Paychex, Inc., based in Rochester, N.Y., with offices in 53 U.S. cities, processes payroll checks, payroll tax returns, earnings statements and payroll-related management reports for about 51,000 companies with fewer than 100 employees.

Start-ups and developing businesses that have growth potential sometimes get help from high-priced professionals at discount rates. Zond Systems, Inc., in Tehachapi, Calif., which operates windmills and sells electricity they produce to California utilities, installed its first windmill in 1981. Two years later Zond President Kenneth C. Karas went to the Los Angeles office of Price Waterhouse, the Big Eight accounting firm, for help in raising capital and planning long-range growth and for tax advice. The firm's entrepreneurial services group gave Karas a 50 percent discount on fees for a year. After 1983, when the company's sales exceeded $25 million, its discount was cut to 30 percent. Now it is paying full rate, Karas says.

"Our philosophy is that we want to be on the train when it leaves the station," says Edward R. Cheramy, a founding partner of the Price Waterhouse entrepreneurial services group in Los Angeles and one of the CPAs who worked on the Zond account. "If we're not there when businesses are getting started and really need some help and advice, we're not going to be able to attract those people to us three to five years from now when they're successful. They're going to ask the question, I think justifiably, 'Where were you when I needed you?'" NB

To order reprints of this article, see page 81.

COVER STORY

The Boom That Won't Quit

By Steven K. Beckner

Rodger Sampson (left) and John Rapasky, Jr., achieved success in the highly competitive data processing industry by specializing. Their company, American Information Services, Inc., serves small to mid-sized banks in the Chicago area.

PHOTO: PAT CORDELL

As a performer in television commercials, Janel Landon traveled constantly to meet assignments. After her marriage to a publisher, she accompanied him on business trips to many parts of the globe. She found she not only enjoyed traveling but also was picking up extensive knowledge about the mechanics of moving people from one place to another.

That interest grew alongside another—a strong entrepreneurial drive. The daughter of two entrepreneurs and the sister of three others, Landon concluded that she also wanted a business of her own. "It's in my blood," she says. "I've got to be an entrepreneur."

It was not surprising, then, that she started her own company and that it was in the travel business. Travelbound, Ltd., was launched in 1976 to provide travel services to companies, was later expanded to include government trade missions abroad and most recently moved into teleconferencing through its own $2 million facility.

Landon is president and majority shareholder of the privately held firm, which had $15 million in sales last year and expects to double that this year.

The company has just moved into quarters five times larger than the previous ones, and Landon says Travelbound probably will open offices in Washington and Los Angeles over the next two years.

Landon's experiences reflect what has been happening in the American economy's hottest growth area ever—the service industry in the last two decades. Her success particularly spotlights the important role that smaller and medium-sized businesses are playing in that growth.

This article provides an overview of the service sector not only in broad outlines but also through the experiences

Steven K. Beckner is a Washington-based journalist who specializes in business subjects.

The growth of services has been called an "economic miracle," and it shows no signs of slowing down.

"The service economy is the place to be," says Don Storer, marketing vice president for the Seiler Corporation. The fast-growing firm, which provides food services to companies and institutions, has begun to expand beyond its traditional New England base.

PHOTO: T. MICHAEL KEZA

and expectations of successful service entrepreneurs whose firsthand knowledge can help other entrepreneurs.

The sector's sheer growth has been called an economic miracle. Management consultants Karl Albrecht and Ron Zemkire say: "Service is no longer an industrial by-product, a sector that generates no wealth but 'simply moves money around,' as some economists have scoffed."

In their recently published book, *Service America!*, they state: "Service has become a powerful economic engine in its own right—the fast track of the new American economy." Some of the dimensions of this economic engine:

- Services now account for nearly 70 percent of the gross national product.
- Of 25 million jobs created since 1970, 22 million, or 88 percent, were in the service sector.
- Nine out of 10 jobs created between now and 1995 are expected to be in services.
- The service sector is given principal credit for pulling the nation out of the 1982-83 recession, the worst economic downturn since the 1930s depression. More than 80 percent of the 11 million jobs created since the recession have been in services.

Gregory Ross, a vice president of ARA Services, Inc., a diversified company based in Philadelphia, is head of the data committee of the Coalition of Service Industries. He provides another perspective. Noting that employment in the manufacturing area grew a scant 1.2 percent from 1970 to 1984, he says that, if the service sector's growth had been at the same level, "the country's unemployment rate would have been 26.2 percent instead of 7.5 percent in 1984."

Companies large and small in the service sector are not so much concerned with the spectacular numbers already in the record books, but with prospects for the future. The consensus of the experts is for a continuation of the ser-

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Circle No. 48 on Reader Service Card.

Janel Landon, shown here with an employee, combined an entrepreneurial drive and extensive travel experience into a successful company that handles travel arrangements for corporations and has just made a major expansion into teleconferencing.

PHOTO: ARNOLD ZANN—BLACK STAR

vice boom, particularly in view of newly increased optimism about the economy in the near term (see Business Outlook, page 10) and demographic and social patterns that will affect the long term.

Any review of the service sector must begin at the beginning—with an understanding of just what it comprises.

There are various definitions of service businesses. One is simply that their output is consumed where it is produced. Another holds that the principal distinction between goods and services is that the latter cannot be inventoried. Still another definition holds that services require the presence of the end consumer.

Major components of the service sector, according to a U.S. Commerce Department breakout, are: information, finance, transportation, health and medicine, accounting, management, travel, recreation and leisure, entertainment, education, law, advertising, trade, leasing, consulting, public relations, operations and maintenance, and architecture and engineering.

Expansion in many of those areas has been accelerated by technology.

Carol Gibbons Krauss, a service-business specialist for Arthur D. Little, Inc., the consulting and research company based in Cambridge, Mass., says, "The rapid growth of computer, information and high tech businesses is creating a wide variety of new services—computer software, data retrieval systems, banking and brokering from home, cable television, energy management systems, security systems, local area networks and similar businesses."

Whatever the definition used, entrepreneurs involved in services are upbeat on the outlook for their firms.

The best way to gauge the origin and future of the service boom is through individual companies that have participated in it. Prime examples can be found in the financial services and information processing areas.

There are, of course, the giants.

American Express, long known primarily for its credit card and travel-oriented businesses, is one of a number of major companies that have found great opportunities in financial services. Its growth is reflected in its revenues, which went from $3.7 billion in 1980 to $11.8 billion last year.

Harry Freeman, executive vice president, says financial planning remains an important growth area because of "the proliferation of financial products in the marketplace." He also points up the role of the information revolution in the growth of the service sector. Most of his company's 80,000 employees, he says, process information. "We can't build our data processing plants fast enough," he says.

The voracious demand for information processing in a high tech society produced another giant company, the one that H. Ross Perot started in 1962 with $25,000 of his own and family members' money and sold to General Motors 23 years later for $2.5 billion.

Perot recognized early on that corporations, government agencies and other organizations were having trouble setting up efficient data processing operations, and he established Electronic Data Systems Corporation to do the job for them. Perot approached would-be clients with an appealing offer—EDS would handle their data processing for the same amount the company had budgeted. When EDS did the job for less, the difference represented a profit.

EDS has become one of the legends of the computer age, but there also has been room for much smaller information-based companies.

American Information Services, Inc., Chicago Heights, Ill., suggests the growth potential for entrepreneurs. The firm, founded in 1959 as Aetna Data Processing Company to serve major corporations, ran into trouble when many of its larger clients began taking their information activities in-house as hardware costs dropped and equipment became more user friendly.

Discussions between John Rapasky, son of the company's founder, and Rodger Sampson, a computer programmer and consultant who was called in, brought a solution to the problem. Specialization.

Sampson's advice to Rapasky: Get into a vertical market—small to medium-sized banks—and move data over phone lines, rather than deliver printed output to clients via courier.

As the two worked on that approach, Rapasky recalls, "we came to realize that the chemistry between us was just right." Sampson had the technical know-how, and "I had a company with a solid and stable reputation in customer service to build on," Rapasky says.

Together they launched American Information Services in 1982, and it really took off. AIS was among the companies that navigated successfully through a treacherous period in the data services industry. Many companies were unable to adjust when clients began taking in-house advantage of new and easier-to-use technology faster than the service firms were.

Sampson reversed that, offering banks technology they did not have to support a wide range of services spawned by banking deregulation.

He also avoided a pitfall that had troubled the predecessor firm, which had tried to write its own software. AIS contracted for help from Florida Software Services in Orlando, which specialized in the financial field.

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COVER STORY

The Boom That Won't Quit

The Bechtel Group sees continuing opportunities for growth despite declining demand in what has been one of its key areas of activity, major construction projects abroad, reports Alden Yates, president of two major subsidiaries of the global services firm.

assured, AIS targeted banks that had less than $500 million in assets. Larger institutions, Sampson reasoned, were likely to have their own information processing departments, but intensified competition resulting from deregulation had increased smaller banks' need to keep up with technology. AIS developed a plan to provide survival tools "by leveraging hardware and software costs across many institutions with the same set of needs."

AIS is in a highly competitive field itself. Major financial institutions that have established in-house information processing units sell those services to smaller banks. How does AIS, with its 85 employees, go up against the giants? "Communications," says Sampson. The entire AIS staff came out of the banking industry and is now trained to show other banks how their needs can be met with customized technological support.

That approach is working. AIS had three clients and contracts totaling $600,000 when it began in 1982. It now has 18 client institutions, operates 700 on-line terminals and last year had $5 million in revenues.

Linda Richardson spotted another type of opportunity for service entrepreneurs in the expansion of financial institutions. She founded a successful company based on a background in education.

She is president of the Richardson Group, a Philadelphia consulting firm whose niche is providing customized sales training programs to financial services companies. Sales last year were nearly $3.5 million, up from $2.4 million the previous year.

As did the leaders of AIS, Richardson found that deregulation and technological change had "brought vigorous competition," requiring heads of financial companies to be more aggressive in attracting and retaining customers.

Enter the Richardson Group. Its president says its programs "are not sales training in the narrow sense" but "a fully integrated curriculum" geared to the client's own planning and goals.

Richardson's approach has won her firm 45 clients that range from $50 million to more than $90 billion in assets.

She got into business via Temple University in Philadelphia and the teaching profession. She was teaching in a junior high school by day and earning a master's degree at Temple by night when she began selling antique jewelry to stores. It was her first taste of selling; she enjoyed it and was successful. She continued in teaching for several years but eventually took a marketing job at Manufacturers Hanover Trust Company in New York City. With her background, it was a natural step to assign her to design sales training programs. By the early 1970s, she had launched herself as an independent consultant to regional banks, and she incorporated the Richardson Group in 1981 in Philadelphia.

Financial institutions like the "consultative" selling approach that her company emphasizes, Richardson says. Clients are shown the most effective ways to determine and meet customer needs. "It is a conservative industry, and we can help them be action-oriented and aggressive without becoming high-pressure salespeople," she explains.

For the past three years, the Richardson Group has not had to seek clients actively. New business has come in as a result of referrals or because companies seeking the firm's services have heard about Richardson through her lectures or her two books. (The second, *101 Tips For Selling Financial Services*, was published recently by John Wiley.)

The fact that clients are coming to her, Richardson says, is a reflection of the continuing expansion of the service sector generally, as well as that of her own company. She says giant institutions turn to small firms like hers instead of developing internal resources because "they know that, when they come to us, they're getting the latest thinking."

Optimism about the service sector's future is by no means confined to the financial services and information processing fields.

PHOTO: BECHTEL

Don Storer, marketing vice president for the Seiler Corporation, a food service firm based in Waltham, Mass., says that "right now, the service economy is the place to be."

Seiler has been chalking up a 25 percent sales growth annually and hopes to double sales—$200 million last year—by 1989. The company, which began when a lawyer and a shirt salesman bought a vending machine firm, now runs feeding facilities for hospitals, schools and businesses. It has 2,800 employees of its own, most of them working on clients' premises, and manages 5,000 workers on others' payrolls. Recently, it expanded operations from its New England base to North Carolina and Ohio.

A key factor for this service firm has been a strong cost-cutting drive in another major service area—health care. Rather than provide food service through their own employees, Storer says, many hospitals have contracted that operation to outside firms.

Hospitals' efforts to operate more efficiently have gone far beyond food facilities, however, and the result has been fast growth for still another service business, hospital management. One of the most prominent companies in this field is Nashville-based Hospital Corporation of America, which owns or manages more than 400 medical facilities in the United States and in four

The changing nature of many service businesses is reflected by Balco Corporation, of Newton, Mass., headed by President Tony Shaker (right). He says the company's heating and air-conditioning business has been expanded to include sophisticated environmental control systems.

PHOTO: T. MICHAEL KEZA

foreign countries. It has enjoyed a 25 percent annual growth rate over the last 17 years.

An intensifying campaign by business and government to brake the escalation of health care costs has had an impact on HCA and other hospital management companies, but HCA sees itself meeting the challenge with an ability to provide cost-effective service. "We're very much market oriented," says Tom Batey, a vice president. "As care shifts to more of an outpatient basis and to the home, we adjust our services to meet those shifts."

The aging of the population and advances in medical technology will continue to provide growth opportunities for HCA, Batey says.

Filling a need in the service sector has been the key to success for individual entrepreneurs, as well as for giants like HCA.

Betty Jo Toccoli, of Los Angeles, started her entrepreneurial career manufacturing cosmetics but found a market niche that went far beyond skin-care products. As part of her sales program for her Laura Lynn Cosmetics, she visited beauty salons and cosmetology schools to give talks that included advice on "how to package yourself."

Interest in her image counseling was so great that she started Total One Development Centers to offer programs designed to build what Toccoli calls "the executive image." Instruction covers fields including nutrition, public speaking, personal finances, business etiquette, communication skills, management and sales techniques, and computer use.

Toccoli contracts with specialists in the various areas to provide the instruction. The company has only eight full-time employees of its own; it has on call 400 specialists, ranging from nutritionists to psychologists.

The lesson of the early days, when promotions for the cosmetics led to establishment of the development centers, drives the firm. "If you sell the service, you automatically sell the product," Toccoli says. "That's been the secret to our success."

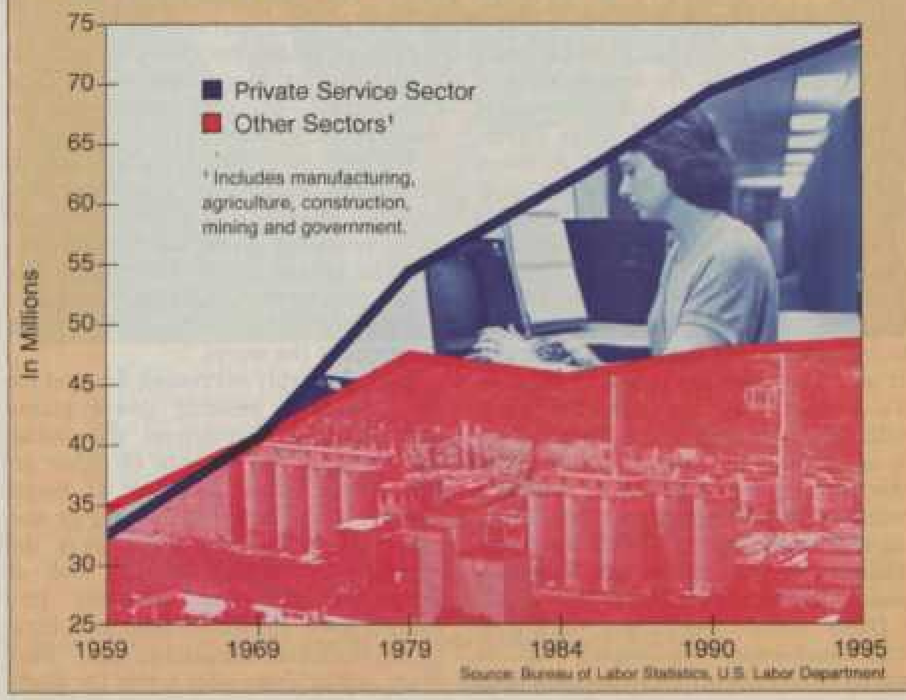
Total One Development Centers products include some for skin care and even packages of color swatches to help a businessman decide which shirt and tie to wear with which suit. Courses on nutrition and wellness yield sales of vitamins produced by Laura Lynn.

After a rocky start—setbacks included the deaths of two key employees and the sidelining of Toccoli herself for treatment of a ruptured appendix—the company reached $1 million in sales last year and expects to do $3 million this year. Toccoli sees a continued boom for services in general: "There is more spendable income to buy services rather than do it yourself. As people get busier, they are willing to pay for quality service. People just want somebody who'll do it right the first time, which relieves stress."

Combining the sale of products with a service business, as Toccoli does, is a particularly popular approach among smaller entrepreneurs. Some begin with products and move into services, while others do the reverse.

For example, Piedmont Decorators, Inc., of Durham, N.C., set out originally to sell paint and wallpaper through do-

The Rise In Service Jobs



COVER STORY

The Boom That Won't Quit

it-yourself classes for homeowners. But the owners of the business soon became aware of a fundamental fact that has launched many service businesses. Frank Golladay, vice president of the company, says, "We discovered that a lot of people really don't want to do it themselves."

Piedmont still sells paint and wallpaper and has added carpeting to its sales line—but the classes are no more. The firm employs a professional decorator and provides, through subcontractors, the services that get its products into customers' homes.

Fred Landis, of Roanoke, Va., on the other hand, added products after starting out with services. His Landis Interiors and Service offers to clean "every type of fabric found in the home except clothing and lampshades." Landis sometimes found that drapes and furniture coverings were too soiled or too worn to clean, and he began selling new drapes and upholstery as part of his business.

Tommy Burns, Jr., of Louisville, Ky., built a thriving service business out of a part-time job he took to help pay for raising and educating four children. After finishing his regular job in a foundry, he worked nights cleaning a department store in the Bacon's chain. The company asked him to take on another store and then a third. He hired a helper and soon left his regular job to launch Burns Janitor Services.

Now, 11 years later, he has 230 employees. In addition to the Bacon chain, customers include the Brown & Williamson Tobacco Company and K Mart stores in Louisville. He expects sales to reach $4 million this year, compared with $1.5 million last year. Says Burns, who is black: "When you first go into a business, especially if you're a minority, you've got to develop an identity, you've got to get people to trust you and believe in you."

His success points up another reason why more and more businesses, as well as individuals, are customers of service firms: "They hire my company because it's cheaper. They don't need the hassle with their own employees. They can go to one person and say, 'If you don't do this, we're going to get rid of you.' If a company has 50 employees just doing manual labor, paying $10 an hour plus benefits, we can go in and cut their costs in half and do a better job."

Other service businesses, including traditional ones, are reaping the rewards of technological advances. One is

This physician and patient are in a hospital managed by Hospital Corporation of America, which represents one of the fastest growing components in the service sector, medical care. HCA, based in Nashville, owns or manages more than 400 medical facilities.

PHOTO: HOSPITAL CORPORATION OF AMERICA

Balco Corporation, of Newton, Mass., which started out in the heating and air-conditioning business—it was the type of firm that homeowners called when the furnace quit in January or the cooling system failed to kick in on that first steamy day in July.

"This business used to be a bunch of people running around with wrenches in their hands," says Tony Shaker, president of what is now the largest company of its type in New England. Balco installs and maintains sophisticated environmental control systems in office buildings, manufacturing plants, and schools and hospitals, in addition to providing residential service.

Service businesses' need to respond to change to keep their competitive edge applies to larger companies, as well as smaller ones.

The declining dollar, falling energy prices and competition from subsidized competitors abroad all joined to push down revenues of Bechtel Group, Inc., the San Francisco-based firm that provides engineering, construction, management and development services throughout the world.

Facing sharply decreased demand for its services in building power plants and refineries throughout the world, the company has its eyes on other areas. Alden Yates, president of major Bechtel subsidiaries in the energy and construction services areas, says the company is "taking another look at things like space and defense." One specific area: President Reagan's Strategic Defense Initiative, the "Star Wars" plan. Yates sees a role for Bechtel in building the system's complicated ground facilities.

For the moment, however, Yates reports that Bechtel is "doing more small jobs than ever before." Many of them involve redesigning or retrofitting of existing plants, rather than construction. The company is also emphasizing postconstruction services, such as operation and maintenance of power plants. "They're not there to build, so we're going in to help run them," Yates says.

The changed environment in which Bechtel operates has also led it to market services that are by-products of its own experience, such as procurement, information processing, satellite communications and financing. The result, it believes, is a new springboard for growth.

Bechtel's experience spotlights an increasingly important facet of the service sector boom—that, while the boom is expected to continue, future growth will not be without challenges.

Experts agree that a healthy service industry is a dependent of, not a substitute for, a strong production base. "There's a limit to how long everybody can take in everybody else's laundry," observes Carol Krauss, the Arthur D. Little service industry specialist. Services now represent 65 to 70 percent of gross national product, and problems could develop if that figure got too much higher, Krauss says. She says service industries would have a difficult time remaining prosperous with a production base that represented only 20 to 25 percent of economic activity.

Mead Wyman, vice president for finance and administration at Lotus Development Corporation, of Woburn, Mass., cites the tremendous growth that firm has enjoyed in marketing software for business applications. But he adds: "If the manufacturing sector declines for whatever reason, that's clearly got to represent to some extent declines in the growth of our sales."

Despite such admonitions, Krauss says the industrial base remains strong.

In his recent Economic Report to Congress, President Reagan challenged the view that the import surge has seriously curtailed U.S. industrial output. He declared: "Strong U.S. economic growth has allowed imports and domestic output of manufactured goods to rise .... U.S. manufacturing rose 7.8 percent in 1983 and 12.4 percent in 1984. The 1984 performance allowed total manufacturing output to surpass the peak established in 1979, and, in 1985, manufacturing output continued to expand, although at a slower rate."

The President told Congress: "There has been no radical shift in demand away from U.S. manufactured goods, nor has the growing international competitive pressure substantially altered this relationship. Sales lost in import and export markets have been offset by the expansion of manufacturing output."

Another concern raised in some quarters is that service jobs are generally lower paying than those in manufacturing and therefore that living standards of many Americans eventually will be reduced.

Ronald K. Shelp, a vice president of Celanese Corporation and chairman of the Coalition of Service Industries, disagrees: "It's misleading to assume the growth is in low-skill, low-wage services. The real growth is in high-skill, high value-added areas."

Some experts, rather than worry about a surge of low-paying jobs in a service-based economy, point out that just the opposite may be happening. They cite a U.S. Commerce Department study showing that, during the early 1980s, employment in a wide range of lower-paying jobs actually shrank, while the ranks of higher-paid service employees grew. The former category included clerical and domestic workers, and the latter, lawyers, engineers, scientists and computer specialists.

Overall, those who work in or watch

COVER STORY

The Boom That Won't Quit

Linda Richardson founded a service company that conducts training programs for financial institutions. The Richardson Group, she says, can help people in a traditionally conservative industry become "very action-oriented and aggressive."

PHOTO: SAL DI MARCO—BLACK STAR

the service industry closely remain upbeat about its future.

One reason for that optimism is the outlook of service entrepreneurs like Travelbound's Janel Landon, who expects great things from her company's expansion into videoconferencing via satellite. She has created a new company, Electronic Meetings, Inc., for a joint venture with U.S. Telecom. Landon's firm is the Chicago facility for Telecom's national network.

Electronic Meetings will market teleconferences to Travelbound's existing clients and will seek new customers for what Landon calls "face-to-face contact without ever having to leave your city."

Her husband serves as chief financial officer of the videoconferencing division, adding to the family's entrepreneurial atmosphere. Landon's mother, a nurse, started one of the first day-care centers in Chicago's western suburbs 20 years ago, and her father was a manufacturers' representative for home products. When he and his wife moved to Wisconsin after he expanded his business, Janel Landon took over operation of the day-care center. She was then a 20-year-old with a brand new college degree, but, she says, "When you've grown up in a family of entrepreneurs, you have street savvy."

The family entrepreneurs, in addition to her parents and husband, are sister Beverly Davis, 40, whose electrical design company in a Chicago suburb produces drawings of control panels for manufacturing plants; brother Robert Davis, 34, of Los Angeles, who owns a radio advertising company that provides scripts for film studios that want to advertise their movies through broadcast outlets, and sister Elizabeth Teague, 30, who is in the process of expanding her greeting-card shop in Schaumberg, Ill.

A third sister, Nancy Davis, 38, is in business, but not as an owner—she works as a commodities broker for a firm in Chicago. A second brother is a teacher and doctoral candidate at Northern Illinois University.

After her stint as administrator for her mother's day-care school, Janel Landon started on the career path that brought her to her own business. "Being as independent as I was," she recalls, "I could not go to work for somebody else." She had put herself through college as a model and went back into that profession "because there is a sense of freedom there—you work when you want." She was asked to do television commercials, gained national exposure, went to California to sign up with a talent agency there, decided against a move to the West Coast, headed back to Chicago. On the return flight, she met Wayne Landon, and they eventually married.

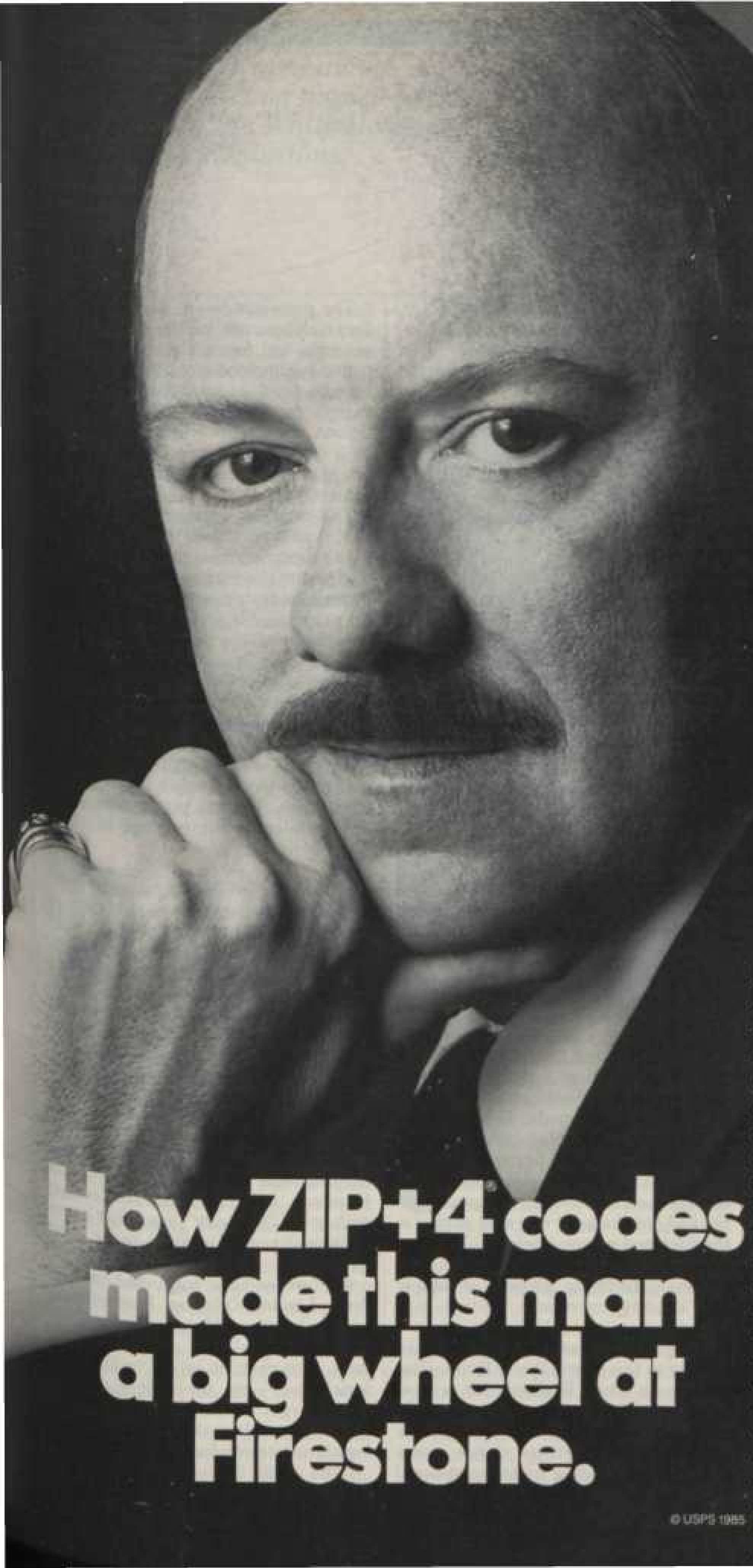
Her enthusiasm about the future of the company she has since founded is unbounded. She expects the work force will expand to 75 from the present 25. And the philosophy she brings to her own business offers a guide to other entrepreneurs who hope to keep the service boom going:

"I think the biggest problem that we face is not recognizing change. Corporations all over the country are trying to catch up, because they didn't recognize that we are in a world in which nothing stays the same. That's why our company is constantly looking at trends and asking, 'How can we be better, and what do we need to do to facilitate what's happening in this world?'

"Another thing is patience. I'm very ambitious, but I've learned that, to be wise, one must also be patient.

"Never forget whom you are serving. We are serving human beings, and it's very important that we do a good job. Often what we do for them affects the quality of what they do for others in their own businesses." ■

To order reprints of this article, see page 81.



MANAGING YOUR BUSINESS

The Search For Capital

By Andrew J. Sherman

The Sinai desert is unbearably hot during the day and very cold at night. During combat there, it has been especially difficult to store and transport blood needed for wounded soldiers at specified temperatures. So when a visiting Army Medical Corps general saw an advanced refrigeration system that did just that for the Israeli Army, he wanted the same product for the United States. Herman Lando, president of Bilan, Inc., in Kalamazoo, Mich., had an identical product and learned of the Medical Corps' interest through an Israeli business associate.

The initial demonstration at Fort Detrick in Frederick, Md., went well, and hopes for a major contract ran high. But there were a few kinks to be worked out, and the Medical Corps asked for additional research. That was in 1978. Eight years later, Lando is still trying to develop a system acceptable to the Defense Department.

"The interest is there," says Bilan Vice President Ron Cross, who joined the company in 1980 and has been searching for venture capital ever since. "Research and development has virtually stopped because we've simply run out of money for this project. Herman has put in over $1.5 million of his own money just to keep the project alive. We've cut our staff back from 25 to seven employees and moved to a much smaller facility."

Cross tried traditional sources of capital—commercial banks, economic development agencies and venture capitalists—without success. He also tried friends, relatives, local investors, attorneys and accountants. The last straw was when, he says, one economic development officer visited the plant, borrowed $70 and paid it back with a bad check.

"We're not looking for charity," Cross says. "But private investors and venture capitalists have given us offers that are simply unrealistic, because they want either too big a piece of the company or too high a return on their investment. The financial institutions we've contacted take one look at our balance sheet and decide they are not interested, without investigating further. Our local bank just revoked a $100,000 line of credit because they were having troubles, even though we've never missed a payment."

Ron Cross has been searching for venture capital for Bilan, Inc., a manufacturer of refrigeration equipment, for more than five years.

PHOTO: BETH ERHART

Bilan's story is not uncommon. Many entrepreneurs and small business owners find out the hard way that capital is the lifeblood of any business. Whether the money is needed to finance a new company, facilitate growth or simply fuel existing operations, finding it is never easy.

Many small business owners are looking to this year's White House Conference on Small Business for proposals that will provide more affordable access to capital. Almost three fourths of 57 state conferences (large states have several) leading up to the national conference beginning August 17 have been held.

The proceedings are an open forum for small business leaders to voice their concerns and formulate legislative and policy recommendations, which will in turn be developed into final recommendations for Congress and the administration. Each state will be represented by a delegation of small business owners elected by their peers at the local conferences.

The need for accessible and affordable capital continues to top the list of high priority recommendations.

"Despite the variety of entities in the financial industry, no real pools of capital are available to finance the day-to-day needs of the small business owner," observes Susan Winer, president of Stratenomics, a Chicago-based financial and strategic planning consulting firm, and cochairperson of the Illinois delegation. "Anywhere from $25,000 to $250,000 is often needed for operating capital, to pay off debts or to finance inventories. Venture capital companies are usually not interested in these kinds of deals."

A host of different finance recommendations have surfaced at the state conferences.

One calls for refining the federal and state securities laws that regulate private offerings of securities.

The Small Business Incentive Act passed by Congress in 1980 has helped resolve some of the capital formation problems that small firms encounter. And in 1982 the Securities and Exchange Commission promulgated Regulation D, which allowed small, private offerings certain exemptions from registration and disclosure requirements. However, offerors must still comply with state "blue sky" laws that create additional regulation and paper work burdens.

Confereees have supported the Uniform Limited Offering Exemption, a proposal that would streamline and harmonize federal and state securities laws. However, it is up to the state legislatures—not the federal government, target of the White House Conference—to adopt the prioposal. Many legislatures have done so.

"The Small Business Incentive Act served as a base from which small business capital formation could take a leap

Andrew J. Sherman is a third-year Washington law student with special knowledge of small business issues.

Small businesses are having a tough time raising money and are looking to the White House Conference for solutions.

forward," says Jerry Feigen, a Small Business Administration expert on venture capital. "It focused the attention of the Securities and Exchange Commission on the small business community. Bridges have been built, but problems still remain."

Many small businesses that have been unable to raise equity capital through private placements have turned to the private venture capital industry.

"We review 550 business plans a year and end up doing two deals," says Jim Arkebauer, of Venture Associates, a Denver venture capital firm. "Because we've been burned a few times, our company has developed very stringent selection criteria. We're looking for quality, not quantity."

He adds: "This is the decade of the entrepreneur, but the organized venture capital industry is limited. Many small business owners are stuck with the traditional family-friends-or-local-bank route."

Jock Holliman, vice president and general manager of VNB Capital Corporation, a small business investment company in Phoenix, agrees: "Many of today's venture capital companies have concentrated their investments in the many troubled firms already in their portfolios. The venture capitalists are trying to salvage old deals rather than take on new deals."

This means tighter access to venture capital funds for start-up and seed companies.

A small business investment company like Holliman's is licensed and regulated by the SBA and can borrow funds from the government for reinvestment in small business. The National Association of Small Business Investment Companies says these firms have invested more than $6 billion in 70,000 small businesses since the inception of the SBIC program in 1958. Over 500 SBICs and minority enterprise SBICs, with assets in excess of $2 billion, actively engage in financing small businesses.

"The SBICs serve a particular market niche," says Peter McNeish, executive vice president of NASBIC in Washington. "The average size of a deal is $150,000. And the SBICs are not looking for the same rate of return on investment that other venture capital firms require. In many instances, these deals would not get done without the SBIC program.

"If the program is cut, as proposed by the administration, thousands of small businesses will be left without a source of capital."

Jim Arkebauer (left), of Venture Associates, a Denver venture capital firm "looking for quality," goes over a business plan with Paul Horst, president of Techno Therm, an Erie, Colo., company that has been developing a portable space heater.

PHOTO: DENNIE CHAMBERLIN

Small business leaders have also identified problems in finding affordable credit. With increasing deregulation of the financial services industry, many commercial banks—the principal traditional source of loans to small business—face new competition for the small business customer.

But, according to SBA statistics, small businesses continue to pay a premium of 2 to 3 percent over rates paid by larger businesses. Delegates to the White House Conference would like to see more parity in this area and have recommended tax breaks on interest earned with loans to small business.

"Access to the credit market is still very difficult for the start-up business," says Andree London, vice president of commercial loans at Chattahoochee Bank in Marietta, Ga. "Most banks would rather wait until the small business becomes a large business. Without the SBA loan programs, many small businesses would not be able to get bank financing." London, who is also a Georgia delegate to the August conference, lends almost exclusively to small businesses, often through the SBA loan guarantee program.

In 1985 the SBA made $1 billion in direct loans to business and homeowners and guaranteed another $2.5 billion in private loans. Under current administration proposals, these loan programs would be abolished.

"We're going to fight to protect the viability of the SBA and to preserve its loan programs," says John Vander Ploeg, a delegate to the 1980 White House Conference and cochairman of the 1986 Michigan delegation. He adds: "You're going to see some important recommendations emerging from this year's conference. Too many companies have gone from one dry hole to another in their quest for capital." NB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MANAGING YOUR BUSINESS

Franchising

By Ripley Hotch

The videocassette rental industry did not exist before 1978, when a company called Video Station opened a small store in California. Says Robert Moffett, who once worked for the company: "The first year they had net profit of $98,000, so you knew there was franchise potential."

Indeed there was. Moffett, now president of Los Angeles-based Video Biz, whose more than 250 stores make it one of the 10 biggest VCR franchise chains, has seen the number of rental stores balloon to almost 20,000—3,000 to 4,000 of them franchises.

The eight-year boom has been fueled by the runaway market for home videocassette recorders, which enabled people to see movies when they wanted, in their own homes. Figures are hard to come by—as Byron W. Boothe, chairman of Popingo, Inc., Wichita, Kans., one of the larger video franchise chains, says, "One of the things about a new industry is it's hard to get your arms around statistics"— but various industry estimates put the number of VCR households in the United States at 30 percent.

Hit hard by the trend have been movie theaters and cable television, both of which have suffered losses of audience and revenues since the video boom began. A recent study for Merrill Lynch, Inc. by analysts Wilkofsky Gruen Associates, predicts that the videotape rental and sales industry will reach an annual retail volume of $20 billion by 1995—more than triple expected movie box office revenue. The biggest beneficiaries of the trend, besides the Japanese manufacturers of VCRs, have been stores that rent video tapes.

The sales curve on videocassette recorders is leveling, says Ira Mayer, executive editor of Los Angeles-based *Video Marketing Newsletter*, which tracks the industry. Sales of 12.6 million are projected for this year, a slight increase over 1985. But, Mayer says, "although the rate of growth is stable, when you look at the percentage of households added, it's enormous. VCR sales are adding 10 percent of households a year through 1988, and you're looking at two thirds of households by the end of the '80s."

The size of the market has attracted greater competition—hundreds of new stores and even hundreds of chains (some have only a few outlets). That means, say industry leaders, that there will be a major shakeout, but that there will continue to be a huge business for retailers who are resourceful in dealing with the new realities.

Shopping for rental movies to watch at home has become an established habit in the 30 percent of American households with videocassette recorders. Competition among franchisors to supply videocassette tapes to the rental market is intense.

PHOTO: KEN TOUCHTON

Most observers believe the video rental and sales industry will be profoundly changed in the next few years.

That means that someone who is considering a major investment in a franchise—and the cost can be up to $250,000 with franchise fees, inventory and remodeling—needs to be very careful about the chain he chooses.

No one is more positive about the trend toward consolidation than Ron Berger, president of National Video, Inc., Portland, Ore., with 624 stores the largest of the franchised chains. He predicts that the strong will get stronger and the weak—particularly the independents who are not members of any kind of chain—will fall by the wayside. Berger predicts that 5,000 U.S. and Canadian video retailers will fail in 1986. Of the top 10 franchisors, he says, "at least five will not be here a year from now, and it will be much worse for guys below that." Berger's NVI is taking over Pop & Card, Inc., an Oklahoma-based franchisor, and is looking for other acquisitions.

Robert McIntosh, a former executive with Adventureland Video, Inc., of Salt Lake City, and now a franchise consultant, says: "Video franchising has seen its day. Two or three years ago everybody wanted to get into it. I think you'll see mergers and conversions, or people will have a regional chain of 50-75 stores and be satisfied with that."

Big franchisors, though they agree there will be a consolidation, say franchisors are in the best position not only to survive, but to prosper. The big losers, they say, will be the mom and pop video retailers.

"It's kind of like a little market competing against a big supermarket," says Moffett. "They don't have the buying power; it's pretty tough for the independents."

Popingo's Boothe, one of the most aggressive franchisors, insists that the

Videocassette rental stores are facing a shakeout. Franchisors are trying innovative approaches to make sure they survive—and prosper.

industry will "grow by leaps and bounds as VCR sales go up," although he also sees consolidation ahead. "There will end up being about three national video franchisors," he says.

Boothe says that the "real growth in the next 18 months will be in the how-to categories—exercise, or how to cook, those kind of things. You're going to see an educational bent to a lot of them: coaching for the Scholastic Aptitude Test and things like that.

"I saw one of my children's test scores improved 40 percent by watching an SAT coaching tape. A lot of investment dollars will be poured into making those tapes." Boothe says Popingo will be getting into videotape production and even into creating computer software.

A major move by convenience stores to open video clubs—7-Eleven is opening its first "Movie Quik" videotape clubs in stores around Washington—is viewed as a minor threat.

Doug Reed, a spokesman for Dallas' Southland Corporation, parent of 7-Eleven, says the primary reason the company is getting into video rental is that "it is an emerging need on the part of our consumers, who have expressed a desire to rent movies in a convenient, inexpensive manner."

In other words, he says, it is a natural extension of the convenience store business. Each store will carry around 200 titles. "The two advantages," says Reed, "are 1) you can rent and return movies 24 hours a day, seven days a week; 2) they are sensibly priced. They will be 99 cents Monday through Thursday and $1.99 Friday through Sunday."

Bill Ditch, an area franchisee of Video Biz in Florida, says the convenience store outlet will be limited because "7-Eleven can't carry enough titles. The average club member will rent 200 movies a year. How many do I have to carry to have 200 you want to see? That's four a week."

Franchisors see supermarkets as a bigger threat—Berger says they will eventually capture 25 percent of rentals—and are fighting back by opening kiosks or ministores themselves within supermarkets or department stores.

"We're very heavy into grocery chains in California, Nevada and Arizona," says John Bosworth, referral coordinator of Adventureland. "Why have a competitor when it can be you?"

National Video is offering its "Movie Express" kiosk option as a franchise in itself. Another National Video innovation, "Pay Per Transaction," is being closely watched by others in the business.

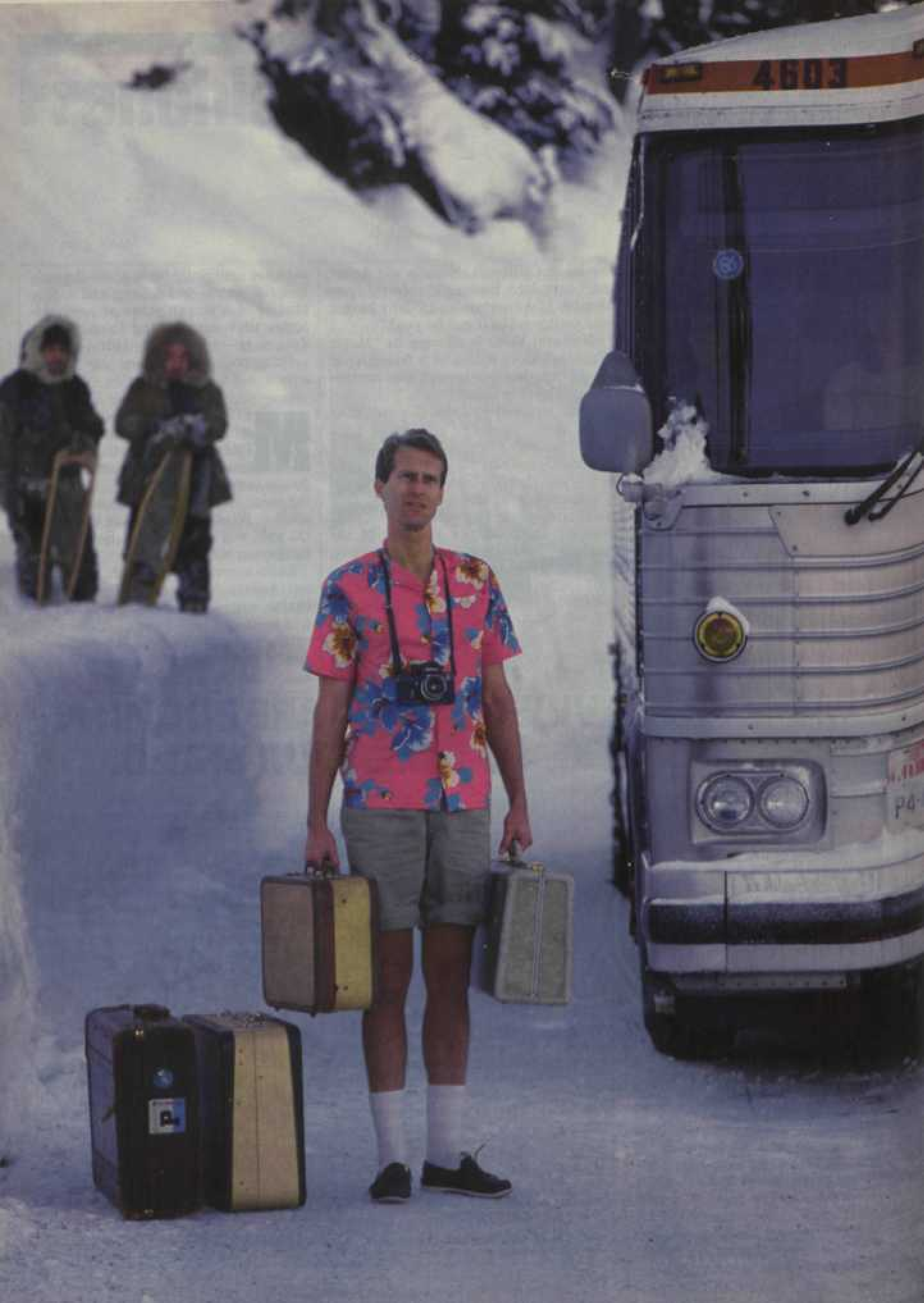
The concept attempts to solve the recurring complaint of video rental outlets—not enough movies—by forging an alliance with movie producers. In a test now going on, selected National Video franchisees pay a studio $6 for cassettes of a new movie up to two months before it goes into general release. The franchisees share all rental revenues on the cassettes with the studio on a 50-50 basis.

Berger says the program will reduce wholesale prices of cassettes, which he says are artificially high; allow the public quick access to hit films; and assure studios of a steady share of rental income, thus encouraging them to produce more—and possibly better—films.

Other video franchisors are not so sure it will work that way.

Moffett worries that studios, which have been known to dictate what percentage of the gross theater owners got, will do the same to video stores. "And then the video stores will be working for the studios. What assurances are there that the split will stay at 50-50? Berger may be playing with dynamite."

Such innovations, though they may not assure the health of individual chains, suggest that strong franchisors will be in the best position to take advantage of a widespread American desire to watch movies at home. ■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Marketing

By Nancy L. Croft

With sparkling water in hand, the handsome, middle-aged man in the ad gazes through an arched window. His chiseled jaw is set with determination. Bare chested and wearing white shorts, he looks as though he might have just won a tennis match.

It could be an ad for a health club. The caption: "Life Looks Better When You Do." It is, instead, an ad for plastic surgery.

Republic Health Corporation, the hospital management company responsible for this ad, is only one example of how the professional services industry is changing its approach to reaching the public. Health care professionals, accountants, lawyers, bankers and others have shed former notions that professional services marketing is taboo. They are deploying marketing strategies that are not only competitive, but also creative.

Professional services advertising—formerly prohibited by most professional associations—began its climb toward respectability in 1977, when the U.S. Supreme Court overturned the Arizona Bar Association's disciplinary action against two attorneys for violating its ban on commercial advertising.

At the same time, the Federal Trade Commission was working to promote greater competition in the professional services field. The FTC used investigations of national professional services associations to loosen restrictions on advertising and standardized fees.

The success of those professionals who were advertising also influenced many traditionalists to shed their prejudices against assertive marketing. "If your competition is advertising and you're not, over time they might steal market share," says Kenneth L. Bernhardt, vice president of the services marketing division of the American Marketing Association. Today, says Bernhardt, most of the American Marketing Association's membership growth is in the services field.

The rise in for-profit hospitals has proven to be an incentive for professional marketing and management, says Bernhardt. Many hospitals see their services as products and the doctors as distributors of the products. Luring more doctors on staff means more patients, medical specializations to promote and lower costs to consumers, says Bernhardt. And physicians benefit from the free advertising these hospitals provide for them.

Humana, Inc., is rated a "perfect 10" by Mary Lou Retton in a recent series of TV commercials for the health services corporation. Retton's shot at the 1984 Olympic gold was saved by one of Humana's orthopedic surgeons.

PHOTO: GARY LAUFMAN

"Health care is a commodity, but most people don't think of it that way," says Michelle Salazar, director of product management of Republic Health, which manages and creates marketing programs for 90 health care facilities. And, she says, health care is one of the only commodities where you do not know a price in advance. "You know in advance the price of your house and your car payment, but the average person on the street cannot tell you how much a hysterectomy is going to cost," she says.

Republic Health decided to market its client hospitals' services by assigning brand names to the services. "We modeled ourselves after other consumer goods," explains Salazar. "Nabisco, for example, doesn't advertise the Nabisco name, it advertises Ritz crackers. So, we pulled out five or six surgical specialties and began marketing those as products." As a result, plastic surgery is now marketed as a program called "You're Becoming" in regional, women's and Sunday newspaper magazines. Cataract surgery has become the "Gift of Sight" and is advertised in publications appealing to the elderly and on TV and radio.

The strategy has actually brought patients to hospitals, says Salazar. "In 1983 Decatur Hospital outside Atlanta performed 49 plastic surgeries. We started brand name marketing in February 1984, and they closed the year with 540 plastic surgeries. They closed this past year with 725 cases."

One health care provider is using celebrity appeal to boost business. Humana, Inc., which owns and manages hospitals, group health plans and free-standing, extended-hour medical centers under the Humana name, began airing television commercials in late February starring Mary Lou Retton.

"Mary Lou is known for excellence, and her connection with Humana promotes our excellence and credibility," says George Atkins, Humana's vice

Professionals of all stripes have shed the notion that marketing is taboo. They are deploying strategies that are competitive and creative.

president of public affairs. In her commercials, Retton recounts her bout with a knee injury that almost kept her from competing in the 1984 Olympics. Retton's shot at the gold was saved at a Humana hospital specializing in orthopedics—one of 16 Humana has designated as Centers of Excellence in specialized medical care and research.

Atkins says that the latest heart transplant technology has also helped position Humana as a brand name provider of health care services.

"When Dr. William DeVries implanted an artificial heart in William Schroeder at Humana Hospital-Audubon, in Louisville, Ky., every Humana hospital benefited from the publicity," says Atkins.

Accountants and other consultants have joined health care professionals in marketing their services. Big Eight accounting firm Deloitte Haskins & Sells has stepped up its marketing by breaking out divisions in the firm to target specific client types.

"In the consulting area you can't provide a total array of services. You have to be more focused," says Ray Spinola, partner in charge of marketing. One program the firm established to attract new businesses is the Capital Connection—a financing network for entrepreneurs.

"We recognized the resurgence of the entrepreneur as a segment that has a unique set of service requirements," says Spinola. The Capital Connection reviews an entrepreneur's financing needs, locates potential investors, helps prepare presentations, arranges introductions and assists in negotiating the deal if necessary.

Philip Unger, a personal injury lawyer in Garden City, N.Y., built his entire practice with advertising when he made the transition from public defender to private practice. "As a public defender, I had no clientele," he says. "In my mind, the only way to start a practice was to advertise."

When Unger first started advertising in early 1980, he received many responses—not all from prospective clients. "I advertised on cable TV in Long Island," he recalls. "I had more response from lawyers than clients.

Personal injury lawyer Philip Unger has more time for his practice now that he works with marketing consultant Irwin Braun. Unger says prospective clients think his professionally designed ads are eye-catching.

PHOTO: JENNIFER JECKLIN

That's not good. The other lawyers were either curious about how successful I was with the ad, or they were annoyed."

With professional services advertising, says Unger, ads must be designed very carefully to retain credibility and avoid misleading the public. He says that hiring a professional marketing consultant to design calculated ad campaigns is well worth the money.

When he designed his own campaigns, Unger says, he did not have the expertise to determine which ads were most effective. With his professionally designed ad campaign, says Unger, "I've had people call to tell me my ad attracted their eye and they figured there was some correlation between someone putting out a nice ad and being a good attorney."

When it comes to creating marketing campaigns that appeal to consumers, many professionals are still in the dark ages, says Irwin Braun, author of the book *Building a Successful Professional Practice with Advertising.*

Braun advises service professionals to seek the help of a marketing consultant when creating an ad campaign. But if a consultant is not in your budget, Braun says there are ways to make your personal campaign more effective:

- Determine what aspects of your practice will distinguish you from the competition and stress them in your ads.
- Analyze the demographics of your location to get an idea of what services will be most appealing and affordable to area consumers.
- Watch TV, listen to the radio and comb newspapers, magazines and direct mail to see what your competition is doing. Says Braun: "You don't want to do what the competition is doing. You want to do it better."
- Once your ad message is out there, be prepared for response. Also be prepared to handle a larger volume of clients.

Like Unger, many services hire professional public relations firms and advertisers to manage their marketing projects.

Where do they find these creative minds to provide this service? Through advertising, of course. NB

Planning For A Crisis

A potential disaster can become an opportunity to improve a firm's image, if the management team is alert.

By Steven Fink

A crisis in business can occur with little or no warning, anywhere, anytime. And it can happen to any company, large or small, public or private.

It is, in other words, the safest of assumptions that a crisis looms on the horizon. Yet, fully half of the chief executives in a recent survey admitted they had no plan for managing a crisis in their business.

A crisis is not necessarily bad. It is merely a turning point characterized by a certain degree of risk and uncertainty. It holds the possibility for a highly undesirable outcome or an outcome that is extremely positive. It is usually a 50-50 proposition, but you can improve the odds.

The manager who can predict and plan for a turning point stands a far better chance of capitalizing on that opportunity than someone who allows the crisis to sneak up on him or her unprepared.

Crisis management—planning for a crisis—is the art of removing much of the risk and uncertainty to allow you to achieve more control over your own destiny.

Can you recall, when you were young, being cautioned to bring two pencils to school on the day of a test? In the event one pencil point broke, you would be prepared to continue with the exam, unfazed by the mishap.

That was a form of crisis management.

You and your managers should understand that anytime you are not in a crisis, you are in a precrisis mode. If you are vigilant, you may catch sight of something that needs to be addressed before it gets out of control. A crisis can be averted only in the warning stage. Once the acute crisis hits, there is no turning back.

Consider two alternative responses to the same warning-stage situation:

Response No. 1. You are the company treasurer, and one of your duties is to handle the payroll. It is two days before payday, but your accounts receivable have been running late this month, and you won't be able to meet the payroll with current cash on hand. You call your banker, arrange a short-term loan (or draw down on an already established line of credit) to meet the payroll and repay the note when your receivables come in.

Excerpted from Crisis Management: Planning for the Inevitable, *by Steven Fink,* *Published this month by AMACOM, a division of American Management Association, 135 W. 50th Street, New York, N.Y. 10020.* *$17.95.*

ILLUSTRATIONS: WILLIAM COULTER

The warning signal was the shortage of cash. You averted a crisis by spotting the signal and taking corrective crisis management measures.

No crisis; no turning point. But, let's consider the other alternative.

Response No. 2. Assume the same cash flow situation as above. But this time, you are the chief executive officer, and your company treasurer has suddenly been called out of town on a personal emergency.

The data processing manager brings you the computer-generated payroll checks for your signature, just the way she always does. You assume everything is fine and sign your name on the dotted line of a crisis.

The checks bounce.

Although it takes no time to realize what has happened, and your banker immediately begins to cover the checks, rumors begin to fly that your company is going belly-up. "They can't even meet their payroll."

The next day a story appears in the newspaper, and you are accurately quoted as having said, "While it is true that all of our employees' payroll checks bounced, it really was just a small problem that we took care of. We have made good on every check. And these rumors that we are going out of business are just not true."

This protest only fuels the crisis. Some of your suppliers begin to get nervous about the size of your bill with them. They demand immediate payment and refuse to extend you additional credit. All further shipments will be made C.O.D.

Without the credit—*every* company operates on credit—your cash flow does indeed get worse, and you have to borrow more money to meet expenses. Your debt ratio grows, and your banker starts to apply pressure on you to reduce your debt with his bank.

Meanwhile, employee morale is at an all-time low.

The internal rumors are worse than the external ones. Some of your key executives resign—some to work for your competitors, others to go into business against you.

You sue them all—old competitors, new competitors and former employees—for a violation of the Trade Se-

crets Act and for a breach of fiduciary responsibilities.

The litigation's cost is astronomical.

More stories appear in the media about the lawsuits and about how badly your business has been hurt. The stories are true.

Eventually, those once ill-founded rumors become reality. Your company cannot escape the dire financial straits it has gotten itself into. It either (a) goes out of business, (b) files for Chapter 11 protection, (c) is taken over by the bank or (d) is taken over by outside financial interests. Take your pick.

Is any of this possible? All of it.

Is any of this *probable*? Not for an astute manager. Such an executive is so adept at spotting potential trouble that, if placed in this CEO's shoes, the manager would have made sure that the assistant treasurer or someone else was on top of things while the treasurer was out of town. (Most likely the treasurer—being a good crisis manager—made certain that the situation was under control before leaving.)

In the first scenario, the treasurer averted an acute crisis by making just one telephone call to the bank. The treasurer could be given credit for saving the company.

But is that really so? Certainly not. Part of the job is to make certain no crises occur over such routine matters as meeting a payroll. In many cases, it is the correct planning and handling of routine matters that averts crisis.

Is this *really* crisis management? Yes. Any measure that removes the risk and uncertainty from a given situation and thereby allows you to be more in control is indeed crisis management.

Crisis management means using your imagination to pose for yourself the worst things that could happen to your company. A terrorist kidnapping? Putting all your company's resources behind a new product launch only to find that a competitor with far larger resources is ready to float a similar product? You then need to plot a scenario to see where that worst case takes you.

"At Texaco," says the oil company's general manager for strategic planning, Clement B. Malin, "we ask questions like, 'What is the environment in which a situation is developing, and if you don't like what you see, how can you change it?'" Then, he says, management is presented with a variety of courses of action designed to meet specific objectives.

Crisis evaluation should consider the likelihood of the event happening and what the damage to the company will be if nothing is done to avert it or control it. Your analysis will consider these basic questions:

1. How intense might the crisis get, and how quickly? How much intensity can you or your company endure and for how long?

2. Will your crisis fall under the watchful eye of the media or some government regulatory agency? What sort of coverage might ensue?

3. To what extent will the crisis interfere with normal operations of your business?

4. Are you the victim or the culprit? Knowing which will help you determine whether you stand to jeopardize the positive public image your company enjoys. Suppose, for example, you are the manager of an oil refinery and your operation explodes one night in a deadly ball of fire. If the event was the result of sabotage by some terrorist group, you are the victim, and your company's public image may not be in trouble. If, however, the tragedy was the result of carelessness, your positive public image is at serious risk.

5. To what extent would the crisis damage your bottom line if you do not intervene? What is the cost of taking action?

Thinking through such questions enables you to plot your course ahead of time. The following example will illustrate what some of the benefits can be when you anticipate crisis, and what the cost can be when you don't.

Assume you are the CEO of a manufacturing company with several antiquated, unprofitable plants. Economic conditions demand that you close one of them. Furthermore, assume that your monthly overhead at the targeted plant is $1 million and that you have decided to close it at the end of six months. Revenues aside, this means expending an additional $6 million before the plant is closed. You plan to announce the plant closing in five months, one full month before the plant is shuttered and its 500 employees are out of work.

Since you have had to close plants in the past, you have reason to expect that the following sequence of events will unfold when you announce the regrettable but necessary decision to close the plant in one month:

- Unions cry foul, workers protest, and families of workers (especially the toddlers, because of the great visual impact they make on television) picket in front of the plant.
- You get the same treatment in front of your home. (They will find out where you live.)
- Government officials call emergency meetings to see if they can come up with a plan to entice you to change your mind.
- The news media begin to run feature stories on how the closing will affect the workers, the community, the tax base and the like. The evening news, with depressing regularity, features an interview with a soon-to-be displaced worker and his wife and kids—all sitting on their living room couch—trying to explain what the closing means to them and all the things they will have to do without. (You will not, however, see the media interview any displaced worker who has landed another job closer to home with better pay and better conditions.)
- Newspapers run feature stories or exposés on you, your company and all of the times your company had been cited over the years by any regulatory agency. They compare this plant with your other operations and always ask why *this* plant was singled out for closing. You will see at least one or two interviews with someone who is only three months shy of having a vested pension.
- At a news conference, the union charges you really have no plans to close the plant; what you really want is (a) to break the union; (b) to force the workers to agree to wage concessions; (c) to reduce the work force 50 percent and replace those workers with robots;

"Your Dream Can Be A Reality!"

Let me show you how you can make a minimum of **$8,000 in 2 days.** That's right! In only 2 days you could be enjoying a completely different and wonderful lifestyle.

Can you use $8,000 in the next 2 days? Can you use $16,000 in the next 2 weeks? Can you use $24,000 in the next 30 days? This is an absolute reality and I want to show you how it can be done.

There was a time when I was so broke I could not put diapers on my baby or feed my family. Maybe you are living like I was — I pray that you are not. Maybe you are hurting financially just a little. Maybe you are thousands of dollars in debt and can't see your way out, or maybe you are just dissatisfied with your present way of life. **If any of the above applies, you will be interested in what I have to say!**

I am on top of the world - but it wasn't always that way; in fact, 13 months ago, I was hurting and hurting badly. Almost 2 years ago I got involved in a business that turned out to be a disaster. Unfortunately, when it went down the tubes, all my life savings went with it. I thought my life had come to an end. I had no money to pay the rent, the car payment, the phone bill, the gas bill nor the light bill. That's right, I didn't have a penny to my name. The thing that was really bad, was that my family was suffering with me.

In a matter of 9 months, we were $14,000 in debt. We had a place to live only because a friend was kind enough to let us stay rent free. Life was bad, and every day it was getting worse. Despite the disappointments of being in debt and unemployed, we kept hanging in there — looking and searching for something — anything!

This might sound like a familiar song to a few of you, but in my situation, the results were rare.

In one miraculous day, everything changed. That particular day, I woke up very early. I went into the kitchen, sat down and dropped my head to the table. I was so miserable and full of hurt and grief watching the hours pass by. All of a sudden, I was overcome with an incredible idea: an idea that was so strong, I instantly picked up the phone. I made that one certain phone call. Just **one phone call** and **2 days later**, we were making **$8,000 a month! guaranteed!** All I made was one phone call and in 2 days our miseries were gone!

In the next 60 days, we paid off our $14,000 debt and began buying things that even people who have worked all of their lives can't afford: my dream car - a Mercedes 450 SL. It was a symbol of my small discovery and my victory over defeat.

Five months after this discovery, I bought my wife a BMW 533i for Valentine's Day. It was just a little something to let her know how much I appreciated and loved her for sticking with me through those trying 9 months.

Eight months after my discovery, I asked my wife where she would like to live if given the freedom and the choice: "California." So we packed up everything and moved to the most beautiful spot in the state. Those of you who have been to Santa Barbara know what I'm talking about. We moved to a beautiful $250,000 home right by the ocean. And we still had $30,000 in the bank!

Yes, our lives changed entirely **in only 2 days** - all because of one, simple phone call - a phone call that anyone, anywhere can make. All you need is to know the secret. This is such a great little secret, I just had to write a simple book telling you how to make the ONE, SIMPLE 3 MINUTE PHONE CALL. This call will **entirely change your financial picture** in only **2 days,** as it did mine.

Believe me, it works - it works big - and it keeps on working. Day after day, week after week, month after month - it keeps on working for as long as you want it - guaranteed!

My money making method is **so simple** that it is almost hard to believe. Just imagine, you are sitting by your phone and you make **one phone call that takes approximately 3 minutes.** In a maximum of **2 days**, you can be making a minimum of **$8,000 per month, guaranteed,** for as long as you want it. Pick up the phone again, and make another 3 minute phone call and in **2 days**, you can be making a minimum of **$16,000 per month, guaranteed,** for as long as you want it.

THE FORMULA WORKS LIKE THIS: EVERY 3 MINUTE PHONE CALL = $8,000 PER MONTH INCOME GUARANTEED FOR AS LONG AS YOU WANT IT.

There is **nothing magical** about this. You just need to know who to call. It's that simple.

Every successful person has his secret to success. But some are harder to follow than others. I know that my secret is by far the easiest. How difficult can it be to make a 3 minute phone call - which can be making you $8,000 per month in just 2 days. YOU JUDGE FOR YOURSELF.

I promise, there is NO CATCH. You just need to know who to call.

My program is something that has never been done, seen nor advertised before!

I don't want to waste valuable space telling you what it is not, but **I guarantee you** that you have never seen anything like this before. Although you make a 3 minute phone call, you **do not** sell anything over the phone. I repeat, YOU DON'T SELL ANYTHING.

My program is absolutely legal and the most moral and ethical work you will ever do.

This is something anybody, living anywhere, in any kind of circumstance can do.

Sworn Testimonial:
"After receiving Doug Holmes' book, it took me ***two days*** *to secure an income of* ***$12,000*** *per month guaranteed, for as long as I wanted it."*
Mike Kohler, Texas

Sworn Testimonial:
"I'm 32 years old, high school education and a housewife. Once receiving Doug Holmes' book, within a ***few days*** *I secured enough income to become* ***financially independent for life."***
Karen Skelly, Illinois

Sworn Testimonial:
"I was flat broke when I received Mr. Holmes' book. After ***2 days*** *of applying his method, I locked in an income of* ***$8,400*** *per month guaranteed!"*
Dan Cockrell, Texas

Sworn Statement:
"I have personally been a witness and do testify that Mr. Douglas G. Holmes has been able to secure in 2 days $8,000 per month, guaranteed - after one 3-minute phone call."
Milt F., S.L.C., Utah

Sworn Statement:
"As the personal accountant and brother of Doug Holmes, I testify that Mr. Holmes has, indeed, been able to lock in an income of $8,000 per month, guaranteed, within a 2 day period. I also testify that the statements made on this page are accurate and true."
Robert M. Holmes, Accountant
Oregon

"Zero to $8,000 in 2 Days" Guarantee

Order my book **"Zero to $8,000 in 2 Days"** and let me prove that what I have said is true. When the book arrives, quickly open it to the first page — take the next 60 minutes and read my seven simple steps to success. Then pick up the phone and make that 3-minute phone call, and if you are not making a minimum of $8,000 per month, guaranteed, within 2 days, send back the materials in original condition at **anytime** for a full refund.

Make $24,000 in 30 days or $16,000 in 14 days. If you have any doubts **simply order the book.** With my **guarantee** you will be trying my program **absolutely free. You have nothing to lose and $8,000 in 2 days to gain!**

Sworn Testimonial:
"Within ***18 hours*** *of reading Doug Holmes' book, I locked in an income of* ***$12,000/month."***
Ken Smith, Sask., Canada

Important notice: Due to the high demand for my book, please order within 7 days to insure prompt delivery. Orders are filled on a first come, first serve basis.

My office phone number is (805) 964-4366.

Your Order Form

Douglas G. Holmes
5290 Overpass Rd., Suite 215 Dept. 211
Santa Barbara, CA 93111

Dear Doug,

If you can make one 3-minute phone call, then surely I can. I'm willing to send you **$10** on the condition that if I'm not making $8,000 in 2 days, or am not satisfied with your book, I can send it back at **anytime** for a full refund.

Option ☐ **$2** Special handling and 1st class shipping.

Name ______________________

Address ______________________

City ______________________

State ______________ Zip ______

Foreign orders, please add **$2** for shipping. Thank you!

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or (d) all of the above. None of this is true.

- Government officials hold a news conference to announce the tax concessions they will make if you will stay.
- You are burned in effigy at a rally outside the plant.

Eventually the month ends, the plant closes (with more media coverage), and you and your company have been castigated, vilified, defamed, cursed and had the legitimacy of your birth questioned by an endless stream of men, women, children and politicians.

But remember, this hasn't happened—*yet*. It is just what your crisis management planning has told you to expect. And you have determined that this predicted chain of events is unacceptable. You examine ways to turn the precrisis situation into either an opportunity (a plus) or, at minimum, a nonnegative (a neutral). You come up with two possibilities:

Alternative No. 1. Instead of announcing the closing in the fifth month, with just one month's notice, you announce it soon after the decision is made, in the first month. But you announce that the plant will close in *one* month (which is the second month of your six-month plan).

All the howls of protest described above begin on schedule. Except that you meet with the unions, government officials and others in a series of marathon meetings.

Afterward, you announce that the unions and the government and community leaders have convinced you to keep the plant open for six full months in order to give the workers ample time to make adjustments and seek other employment.

The union appears to have "come through" for its workers.

The elected officials look good to their constituents.

You are still a louse to many, but at least you're a louse with a heart. And you close the plant in six months—just the way you wanted to.

Cost of intervention: approximately the same as nonintervention—$6 million—the $1 million monthly overhead times six months.

Alternative No. 2. This alternative is slightly more complicated, but it creates a strong positive reaction *from the beginning*. It never allows the negative ball to begin rolling.

First, behind closed doors, you brief union and government officials, telling them that you have no choice but to close the plant, but that—with their help—you are prepared to do everything possible to see that the workers do not suffer.

You then announce in the first month that you will be forced to close the plant in five months. However, in your announcement—which can even be made jointly by management, labor and government—you say that after consulting with union and government officials, your company is going to spend $1 million to help every displaced worker find other work.

This assistance will include such programs as on-site job and career counseling, job retraining, resumé-writing services, family counseling and sessions with a psychologist to help workers cope with the stress of possible unemployment.

After the announcement, the media cover the rest of the story from a human interest perspective, showing what a caring company can do to help displaced workers. The unions look good to their workers; government officials look helpful to their constituents.

While no statue of you may be erected, no one is burning you in effigy either. You are not a louse.

Cost of intervention: $6 million, the same as nonintervention or Alternative No. 1—$1 million monthly on overhead times five months plus $1 million on outplacement services.

Neither alternative is being recommended as a universal course of action. The point is simply that negative events such as plant closings happen every day, and many business decision makers view these events merely as "unfortunate facts of life," not as potential crises or opportunities to turn a guaranteed negative into a possible positive.

In this case, both alternatives give the employees time to make plans. The plant closing is, in fact, a turning point for the workers, not just for the company. And with any turning point, any crisis, the more time you have to plan, the better are your chances for success. **NB**


A SPARK OF NEW LIFE
When General Electric went looking for a site to build a new, highly sophisticated Aircraft Engine Component plant, it was Madisonville, Kentucky that sparked their interest.
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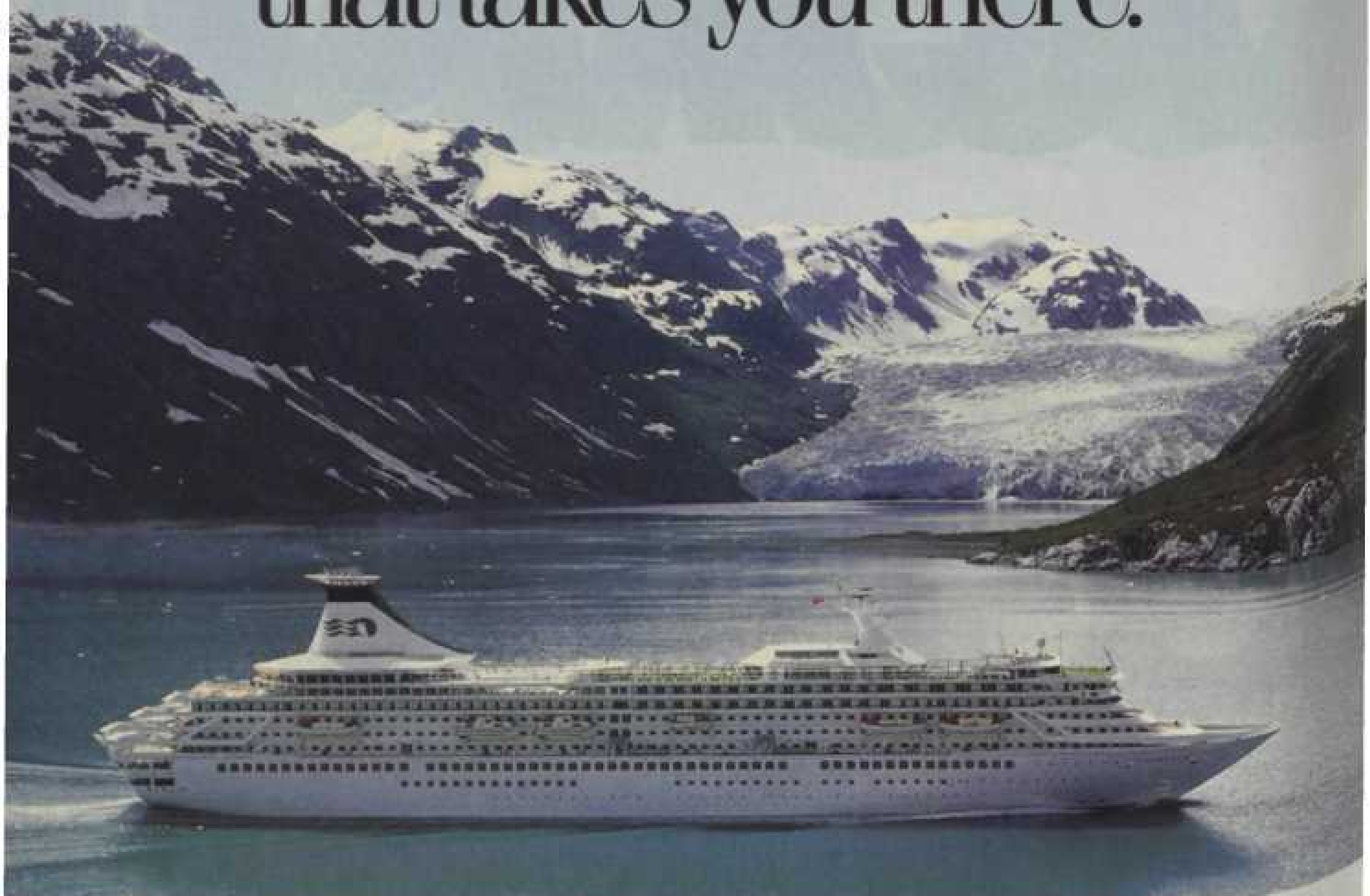

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The Cutting Edge

One of the most terrifying prospects for a company is to lose its data. New security techniques will help managers sleep easier.

By Karen Berney

With an increasing number of microcomputers scattered throughout a business, executives are worried about maintaining data security and integrity. Experts say the first step is to make employees aware of threats to security and enforce procedures to counteract them.

Communities lining the Northern California coast were not the only victims of the torrents of rain that inundated the area last February. Some 3,000 miles away, Joseph Brophy, senior vice president of data processing at Travelers Corporation, was experiencing the stuff of which nightmares are made.

The storm had severed telephone lines that link computers in four branch offices to the insurance company's central database in Hartford, Conn. Luckily, the damage was repaired in 24 hours, so only a day's worth of business was delayed. But, Brophy says, the incident made it only too clear "that when you are playing with large, integrated computer networks, you are playing with fire."

If the disaster had occurred in Hartford and not only cut off power but destroyed all his equipment, Brophy says, even the best laid contingency plans would probably have fallen short. Backup tapes of every file would not suffice, he explains, because "we would still need to find a new facility and acquire new computers." Moreover, the new system would have to be on-line in three days. With a daily workload of 3.5 million transactions, a longer delay "would place us in a situation where we could never catch up with the backlog."

As computers spread rapidly through organizations, and computer networks become commonplace, jobs like Brophy's are more challenging and important than ever, say data security experts. Not long ago, corporate data processing was the purview of mainframe computers that were fairly easy to keep secure because they had to be sealed off in special cool rooms free from dust and other disturbing substances, notes Russell Kay, communications director at the Northborough, Mass.-based Computer Security Institute.

Now, however, computing is decentralized—departmental minicomputers and desk-top microcomputers have replaced mainframes in most cases. Executives who once viewed computer security as a technical matter, better left to the data processing manager, are losing sleep knowing that the company's most valuable assets—customer mailing lists, strategic plans, proprietary product designs—increasingly reside in these widely dispersed small machines, Kay says.

PHOTO: PETER ANGELO SIMON—PHOTOTAKE

"Of the variety of security threats, a power failure is the event most likely to happen," asserts Roger Love, president of Computer Power, Inc., High Bridge, N.J. Take a company that depends on computers to operate fire alarms or machine tools. It cannot afford to be without power for even five minutes, so it often will buy a week's worth of battery power just to be safe, Love says.

Next on the list is enforcement of backup copy rules. Most computer users know they should copy important work on a second floppy disk and keep it in a safe place, but they simply forget. It is up to managers to teach employees that this relatively effortless procedure can save a lot of time and trouble in the long run, says National Bureau of Standards computer security specialist Dennis Branstad.

Third, companies should set up procedures to control who accesses and uses data. A number of commercial software packages, through identification and password requirements, protect an individual microcomputer against unauthorized access. Once a password gives access to a database, the holder can read or write only in files specifically authorized for him.

A layer above passwords is data encryption—an electronic lock to keep out would-be peekers at your data. An algorithm translates data into gibberish that only someone who has the decrypting word or code can decipher.

The ultimate personal identity security system—a combination of voice identification and recognition technology—still lies 5 to 10 years away, say experts. IBM's director of data security programs, Harry B. De Maio, believes voice ID and recognition will eventually yield "the most facile and undefeatable methods" for determining whether someone is authorized to have access to computer resources.

Part of a computer's circuitry would be assigned to identify all nuances distinguishing one voice from another. As in the case of a password, the computer would unlock programs and files after verifying that you are the legitimate user. You would communicate with the computer by voice rather than keyboard, and the computer would keep a running check on your identity. Simultaneously, voice recognition circuitry would supply information to the computer enabling it to do its job.

A password or card can fall into the wrong hands. "But my voice is attached to me," De Maio says. "It cannot be lost. And of all personal possessions, including fingerprints and signatures, it is the most difficult to forge." ■

MANAGING YOUR BUSINESS

Disorganized Labor Regroups

By Bob Gatty

Fire shoots from the eyes behind the granny glasses of the little, silver-haired lady on TV.

"Listen to Mama," she says sternly. "Respecting picket lines is as American as apple pie."

With those words, actress Vicki Lawrence concludes one of several television commercials now being used by the United Food and Commercial Workers International Union. The ads are intended to bolster the union's organizing efforts and strengthen its hand in contract negotiations.

The union, largest in the AFL-CIO, says the tactic is succeeding in times that are tough for organized labor in general. Unions represent only 18.8 percent of wage and salaried workers, compared with 23 percent in 1980 and 27.3 percent in 1970. If action is not taken to stem the decline, says President Jerry McEntee of the American Federation of State, County and Municipal Employees, within 10 years "American labor will be irrelevant as a national force."

So union leaders are looking to a variety of new techniques to help them compete against smart managers who today are well trained in employee relations.

UFCW President William H. Wynn says his union's television ads and companion radio ads are being used:

- To support strikes and organizing efforts.
- Against nonunion stores that hurt unionized competitors or pay below standard wages.
- Against stores with substantial foreign ownership.

"Well, parlez-vous, yourself!" Mama says in one commercial. "If I wanted to parlez-vous, I'd shop on the French Riviera. I ain't settin' foot in that store again. Listen to Mama. Be American. Shop American."

A tag line urging viewers to boycott a French-owned and nonunion grocery chain appears on the screen. On other occasions the ad appears with a different tag line, this one urging purchases at stores of a competing, unionized chain.

"We want to protect our jobs," says UFCW spokesman Alan Zack. "We want to keep the profits in the U.S. for American workers."

Actress Vicki Lawrence, TV's "Mama," delivers the pro-union message of the United Food and Commercial Workers.

PHOTO COURTESY OF UFCW UNION

President Wynn, claiming that the National Labor Relations Board is stacked against unions, argues that they must sidestep the board's union representation election process. The goal is to convince employers to certify a union without going through the process.

The UFCW seems to be succeeding: 105,000 new members over the past 18 months. Fewer than 12 percent joined as a result of NLRB elections, Wynn says. He says that "employers don't drag out the negotiation process" if the UFCW focuses on "gaining their true neutrality on the union representation issue."

"Neutrality" results when employers are intimidated by threats of union activities like publicity campaigns or boycotts, union sources explain. "We just get their attention and hit them where they understand," says Wynn. "In the pocketbook."

He points to instances in which "the potential of using the Mama ads led employers to at least initiate discussions with the UFCW." The commercials have been aired in several cities.

But Edwin D. Ricker, a Grand Blanc, Mich., management consultant who specializes in labor relations, scoffs at the campaign. "I haven't seen any impact," he says. "Store operators' evaluation is that sales levels haven't changed as a result of the ads."

Last summer UFCW Local 455 launched a boycott backed with an intensive ad campaign against 23 stores operated by Market Basket, of Nederland, Tex. Market Basket had bought four closed Piggly Wiggly stores that had been unionized. It staffed them with nonunion workers.

The UFCW's Washington headquarters provided a detailed plan on how many spots to buy on which radio stations, how to tie in the ads with store boycotts and a direct mail campaign, when and how to use picket lines, how to involve clergy and how to use the press.

"It was just picketing and a lot of hoopla, and then it died off," Ricker says, adding that there was no impact on Market Basket's business.

Though such campaigns are usually aimed at larger firms, Ricker asserts the idea is also to intimidate small business operators—to make them say, "I don't want this to happen to me."

Ricker, who advises hundreds of small firms on employee relations, says the firms can beat the unions. "Workers will realize there is no need for a union if they are treated right, and there is a good employee relations program," he says.

Attesting to that is Richard Resbeck, president of Resbeck Food Markets, of Martin's Ferry, Ohio.

In 1982 the firm bought two closed Penny Fare supermarkets in Cambridge, Ohio, and opened them with nonunion employees—including many who had worked at the stores under UFCW contracts.

"We're a small, locally owned business," says Resbeck. "It's not that we're antiunion, but we treat our employees well and hope that they do not feel they need to have a third party represent them."

Resbeck rejected a UFCW demand that he sign a union contract for the two stores. The union picketed for four months and tried to organize a community-wide boycott.

In the past, every move of the organizer was as predictable as the sun rising in the east. Now, new tactics are being tried.

"When we petitioned the NLRB for an election, the union people withdrew and they haven't been back," Resbeck says. "If they had used radio and TV against us, we wouldn't have done anything different."

So far, Resbeck's firmness has succeeded. His company opened a nonunion store in heavily unionized Wheeling, W. Va., and there have been no problems.

"I'm holding my breath," Resbeck says. "But if our employees indicate they want a union election, that's fine. We'll have one under NRLB rules. I just don't believe in intimidation."

Another approach the UFCW intends to take if circumstances are right is to try to win seats for union sympathizers on company boards of directors, Wynn says. A key to that would be persuasion of union members to buy company stock.

"We intend to apply pressure on our employers as they try to apply pressure on employees attempting to organize," Wynn says. "Where we've analyzed a corporate situation, and that corporation is not acting in the best interest of consumers, of employees, even stockholders, we intend to get involved. We intend to bring this information to the public."

Ray Abernathy, a public relations consultant to the Service Employees International Union, says SEIU is using organizing tactics similar to the UFCW's, particularly in the nursing home industry. There, he says, corporate campaigns are combined with publicity about alleged patient care problems. The objective: neutralize employers when union elections are held.

In another union tactic departure, the Hotel Employees and Restaurant Employees International Union last June deployed teams of recent college graduates for organizing efforts in Boston, Washington, Chicago and Orange County, Calif. The organizers, educated at universities like Yale and Georgetown, are backed with a special $2 million war chest. Described as idealistic and committed to HERE, as the hotel union is known, they received special training at a Seafarers International Union facility in Piney Point, Md.

Richard Resbeck, head of a small chain of supermarkets in Ohio and West Virginia, has successfully resisted UFCW organizing efforts. "If they had used radio and TV against us," he says, "we wouldn't have done anything different."

PHOTO: ED SLAVIK

HERE's director of organizing, Vincent J. Sirabella, says the approach is paying off with organizing successes where previous efforts had failed.

Since 1974, HERE's membership has declined from 452,000 to about 400,000. Sirabella says that has been because of a proliferation of huge companies in the hotel industry that have taken tough antiunion stands, probusiness bias at the NLRB and lack of proper training for union organizers.

"Employers are successfully using modern management techniques to thwart unionization of workers or contracts' renewal," Sirabella says. "Too often, the union's campaign is run strictly by the book. Every move of the organizer is as predictable as the sun rising in the east and setting in the west."

Using a different tactic in an attempt to increase membership is the International Union of Bricklayers and Allied Craftsmen, which represents about 100,000 workers and wants to double that. It is establishing five job-skills training centers in response to survey results showing that nonunion workers rate such training as the greatest benefit of union membership. The five-year, $7.5 million program is being funded by a $10 per member annual fee for three years.

The AFL-CIO's Industrial Union Department is urging more surveys by unions. In a memo, it says management today seeks to fight with fear—threatening plant closures if a union wins a representation election, for example. "It can be hard to measure the impact of management's new style of antiunion campaigning during the pressure of an organizing drive," the memo says.

But through polling, using a simple survey that can be handled in-house for $500 to $1,500, that information can be developed, the memo says.

Still another new union tactic is the AFL-CIO's associate membership program. Prime targets are workers who left unions only because of job changes, who voted for unions in unsuccessful organizing drives or who are employed in the service sector, where fewer than 10 percent of employees are organized.

Though associate members do not get union representation, they receive benefits including supplemental health and life insurance, dental and prescription-drug plans, legal services and credit cards, all at money-saving rates. Obviously, AFL-CIO officials are hoping to turn associates into full-fledged members.

"To have any chance," says the hotel union's Sirabella, organized labor must "develop strategies which are unpredictable and unorthodox. We have to be creative." ■

THE NATION'S BUSINESS

Japan-U.S. Trade—A Dialogue

By Henry Eason

Tokyo participants in the third annual "Dialogue on Japan-U.S. Trade" were, from left, Seiki Tozaki, C. Itoh & Company; Akio Morita, Sony Corporation; Richard L. Lesher and Carl Grant, U.S. Chamber of Commerce; Yoshihiro Inayama, Keidanren; U.S. Ambassador Mike Mansfield; Takuji Matsuzawa, Fuji Bank; and Toshikuni Yahiro, Mitsui & Company. Part of the Tokyo audience is shown below.

The sharp fall of the dollar against the yen has gone a long way toward redressing the imbalance in U.S.-Japan trade, Japanese business leaders are now arguing. But key U.S. officials on trade issues disagree.

That exchange of views came in the third annual Japan-U.S. Dialogue on Trade carried over the facilities of the American Business Network, the television operation of the U.S. Chamber of Commerce. Participants in Tokyo and Washington gave their views on trade policy and frequently challenged each other via a global satellite system on February 26.

In Tokyo, U.S. Ambassador Mike Mansfield told a panel of leading Japanese businessmen: "The key word is access. We want you to open your markets more." Japanese Ambassador Nobuo Matsunaga responded from Washington that his country has taken several initiatives to liberalize its markets, realign the dollar and yen, and stimulate demand for imports.

The reference to realignment dealt with the relationship of the yen and the U.S. dollar. The dollar stood at more than 250 yen last year and has been at 180 in recent days.

Akio Morita, chairman of Sony Corporation, pointed out that the $50 billion trade surplus Japan achieved last year came when the dollar was still strong against the yen.

But the continuing large surplus Japan enjoys in its trade with the United States remains a major source of friction, exchanges in the course of the dialogue showed.

Discussing protectionism, Sen. Arlen Specter (R-Pa.) declared: "The mood of the American Congress is not to wait. The trend is horrendous and intolerable. We are on the verge of passing tough protectionist legislation, which will have enough support to override a presidential veto."

The Japanese leaders, on the other hand, see themselves as suffering from the shift in exchange rates that has made their products more costly overseas. "There are many cases of damage and lost jobs," said Takuji Matsuzawa, chairman of Fuji Bank Ltd. "We have to try to minimize that damage." One Japanese proposal mentioned would assist troubled export firms with low-interest government loans to help them reorient their marketing to domestic consumers.

But Rep. Sam Gibbons (D-Fla.), chairman of the House Ways and Means Committee's trade subcommittee, expressed concern that any such an arrangement would offset any advantages the United States received from the stronger yen. "Now that the dollar

PHOTOS: U.S. CHAMBER OF COMMERCE

and the yen are more aligned," he asked, "will Japan subsidize some of its industries so dependent upon trade and wipe out what has been done to the marketplace through revaluation?"

Matsuzawa said that Gibbons was misinformed on the loan program, and that the government's intention was to help Japanese companies become less dependent on exports.

Another point of contention was the proper level of the yen. U.S. Trade Representative Clayton Yeutter cited the view of one American economist who said an exchange rate of 150 yen to the dollar would represent a proper balance. But Toshikuni Yahiro, president of Mitsui & Company., Ltd., said 195 would be appropriate. Yeutter, expressing concern over that viewpoint, said a goal of 195 would mean that Japan wanted to assure itself a permanent, huge trade surplus.

Business and political leaders on both sides of the Pacific challenge each other's views on Japan's trade surplus.

In Washington, Sen. Arlen Specter (R-Pa.), shown with BizNet moderator Meryl Comer, warned Sony's Akio Morita via the television hookup that Congress will pass protectionist legislation this year if Japan does not act quickly to permit entry of more American goods.

PHOTO: T. MICHAEL KEZA

Morita argued that higher quality gives Japanese-made electronic components an edge over American products, but he drew a counterargument.

PHOTO: T. MICHAEL KEZA

Yeutter also responded sharply when Morita suggested that U.S. companies were buying Japanese, rather than American, semiconductors because the imported products were of higher quality. Yeutter said the American companies were purchasing them because their Japanese manufacturers were dumping them on the U.S. market at below-cost prices.

Seiki Tozaki, chief executive officer of C. Itoh & Company, characterized as "worthwhile" a proposal under which Japan would use its large trade surplus to provide more assistance to undeveloped nations.

Yeutter welcomed Tozaki's suggestion but said that Japan might best assist developing nations by opening its markets to their products.

One long-range solution to the U.S.-Japan trade imbalance, Mitsui chief Yahiro said, is Japanese establishment of production facilities within the United States.

Yoshihiro Inayama, chairman of Keidanren, Japan's leading business organization, said that his country had "opened our markets as much as we possibly could." In addition, he said, Japan had cooperated with the United States in efforts to strengthen the yen against the dollar.

Now, he added, it remains to be seen how far those steps go toward eliminating the trade deficit between the two countries.

"It may take some time," he warned, appealing to the United States to avoid dealing with the issue in an atmosphere of "crisis and urgency."

Inayama also said that there were limits to what the Japanese private sector could do toward reducing the U.S.-Japan trade imbalance, and the issue was largely one for government policy decisions.

U.S. Chamber President Richard L. Lesher pointed out that the teleconference involved the use of five satellites 22,000 miles in space, as well as extensive ground facilities.

"Surely," he said, "we can match these technological achievements with diplomatic progress" in dealing with trade problems.

He expressed hope that the teleconference would lead to "a better understanding of the mutual benefits and the mutual responsibilities of both sides." ■

Number Of Japanese Plants Built In Tennessee Still Growing

The number of Japanese companies with production plants in Tennessee increased from 28 to 35 over the past year alone, Gov. Lamar Alexander reports.

The state's attractions, the governor says, include its location—three fourths of the U.S. population is within 500 miles of its borders. "For companies manufacturing things to sell in America, that translates into substantial reductions in the cost of transportation," he adds.

The governor participated via television in the third annual international videoconference on trade relations between Japan and the United States. Tennessee has been a cosponsor of the videoconference in all three years.

In discussing his state's role as host to a growing number of Japanese companies, Alexander also said, "Our state's relationship with Japan is not just one of facts and figures." He cited the cultural and other interests that Tennesseans and Japanese share.

Information on investment opportunities in Tennessee is available from the state's Department of Economic and Community Development, Rachel Jackson Building (Eighth Floor), 320 Sixth Avenue North, Nashville, Tenn. 37219-5308. Telex: 499-1829 ECD NAS.

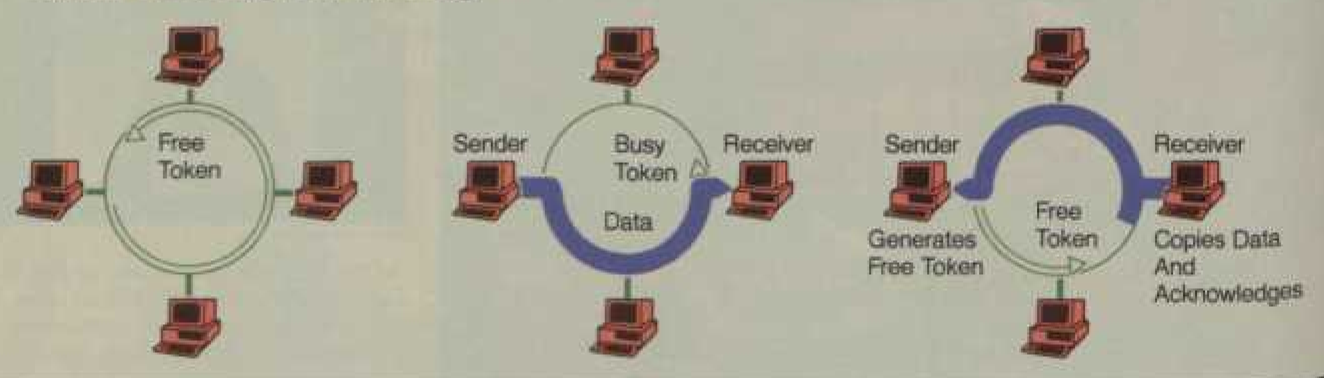
TECHNOLOGY

A Ring Of Office Machines

By Karen Berney

Like a team of runners passing off a baton from one to another, IBM's token ring network passes information by token. The sender figuratively grabs the token, and then adds a message specifying the recipient. The recipient takes the token, copies the data and returns it to the sender, who sets it free for another machine.

Token Passing On A Ring



If a business operates more than one personal computer and has not considered tying them together through a network, chances are it will give the matter a lot of thought this year. The credit, say analysts, goes to IBM, which loosened a logjam of demand for networks last October when it unveiled its token ring technology for linking IBM office products.

The token ring was a much-awaited entry in the market for local area networks. LANs are distinguished from other computer networks in that they operate at distances no greater than three miles. They vary in design, power, intelligence and speed but share a common denominator: They multiply the power of individual personal computers by allowing PCs to share resources.

With a LAN, many machines scattered through an office or group of buildings can send work directly to a single, expensive laser printer. Likewise, LANs let members of a work team tap information stored on a hard disk wherever that disk is—in a micro, mini or mainframe computer. Beyond resource sharing, the most common LAN application is electronic mail.

By keeping the lid on its network until last fall, IBM effectively "deterred its installed base of users from going with alternate LAN technologies," says Lee Doyle, an analyst with International Data Corporation, Framingham, Mass. No corporate manager of information systems was going to invest in a LAN that might be inconsistent with IBM's long-term networking strategy.

"IBM has cleared the cloud of uncertainty so that a business can now select a LAN with a clear conscience," says L. William Krause, president and chief executive officer of 3Com Corporation, a Mountain View, Calif.-based LAN supplier.

Due to hit the market this spring, token ring LANs will spread fast and be operating on 13 percent of all networked personal computers by the end of the year, estimates the Yankee Group, a Boston consulting firm. By 1987, they say, unit shipments of token ring LANs will surpass LANs based on the Xerox-created Ethernet standard and account for 30 percent of all microcomputer networks.

While Big Blue's LAN will not kill off competing technology, "it is clearly going to take over in true-Blue shops," predicts Patrick Gordon, the Yankee Group's LAN specialist.

What makes the token ring different from other LANs is physical layout and the way it controls an individual computer's access to the network: A machine is on the network only when it grabs the "token" that is continually passed around the ring. The token acts like an electronic basket that carries data from one machine to another.

In the IBM plan, users can lay new cable to connect as many as 260 personal computers or use existing telephone wire to link a maximum of 72 machines. An eight-station configuration would cost about $828 per computer for the plug-in adapter card, IBM says.

In the "bus" design of Ethernet LANs, work stations are strung along a central cable that snakes around an office or building. While users have an equal chance of getting on the network, the system locks you out if another user is engaged in a transmission; you must wait your turn. But since transmission usually occurs at 10 million bits per second, this does not involve significant delays.

The third design is the star—like Ethernet, it is already in use—in which each computer is hooked directly to a central controller that supervises network activity and can accommodate 8 to about 30 work stations at a time. If the star's hub develops problems, however, so do all the attached devices.

Common to all three designs are "servers," usually a separate personal computer to handle data sharing. A file server regulates access to files and pro-

IBM's token ring configuration is a powerful push for networking—but it is not the only choice.

Local area networks are becoming commonplace in offices where a work group wants to share such expensive electronic resources as laser printers or hard disk drives. LANs also allow electronic messages to be sent from one personal computer to another.

PHOTO: XEROX CORPORATION

cesses requests to shuttle files from one machine to another; a disk server enables network participants to share the resources on a hard disk.

In the LAN industry, IBM's token ring announcement is noted more as a marketing than a technological event. Like the other techniques, token passing has unique advantages and disadvantages. "It is not necessarily superior technology," says International Data's Doyle, yet "by the sheer fact that token ring is now synonymous with IBM, its impact will be enormous."

"For IBM the priority is not to sell token ring boards for personal computers but to establish the token ring as a key industry standard," maintains Brian Jeffery, research director at International Technology Group, Palo Alto, Calif. Corporations that install token ring departmental LANs will have an incentive to plan future growth under the IBM umbrella, he explains. Without an IBM offering, users would continue to invest in non-token ring approaches, and that "would foil IBM's strategy to eventually dominate the very lucrative networking business," adds Doyle.

The emergence of an IBM-approved LAN is good news for personal computer users, because it should bring a proliferation of software designed to take advantage of LANs. In computer terminology such programs are called "multiuser," because they allow many people to use them at once. With a multiuser database package, for example, one member of an accounting department could perform accounts receivable while another down the hall does accounts payable. To date, only 5 of the 30 top-selling business software programs come in multiuser versions.

David Ferris, president and chief executive officer of San Francisco-based Ferrin Corporation, which specializes in LAN management, explains: "Software houses have finite resources. There are more than 50 LAN vendors, each abiding by different standards, and software developers have simply not been able to afford the research and development necessary to support all of these standards."

With standardization around the token ring, goes the conventional wisdom, this problem is apt to disappear. Since the IBM announcement, virtually every major LAN manufacturer has said it too will be supplying token ring networks and enhancements. In turn, software companies will be able to write one multiuser program and be assured that the program, with only minor modification, will operate on any token ring network from any LAN vendor. "I expect to see an avalanche of multiuser packages," reports 3Com's Krause. "We talk to a lot of developers, and they are working furiously to get products into the market."

The availability of more multiuser software should help sell LAN hardware, because the lack of suitable applications has been one of the biggest obstacles to choosing and using a LAN, say analysts. But the multiuser solution is like icing on the cake and apt to be adopted in only the most sophisticated corporate departments. For the time being, the ability to share costly and therefore scarce resources, like printers and hard disks, will be the bread and butter of the LAN industry.

Though the new token ring standards will probably be used by most businesses with IBM or IBM-compatible computers, the Yankee Group's Gordon says competing technologies will survive and probably be favored for very small networks in companies "that care more about functionality and price than loyalty to IBM."

Furthermore, these organizations will be looking for turnkey LAN solutions—one company to provide LAN hardware and software, installation, training and education. Gordon predicts there will be interesting mergers, acquisitions and strategic alliances.

In the meantime, the potential buyer of a local area network can easily get snowed under by a gaggle of acronyms and sidetracked by arcane debates on the merits of one networking technology over another. To steer clear of issues that will make a brutal learning curve even tougher, analysts recommend that you stick to these basics:

Justify the cost. Do you need a LAN? A good rule of thumb says that if your employees are playing "floppy disk Frisbee," your business is probably a prime LAN candidate. Members of your sales force, for example, may be working off the same contract, copies of which each has stored on computer disk. Every time the contract changes, however, they need to replace the old version by copying the new information off a master disk. The disk must be passed from machine to machine. Hence, growing confusion as you try to keep track of who has what, when and where.

"The key is to justify the application

TECHNOLOGY

A Ring Of Office Machines

because a LAN is expensive," advises Paul Cubbage, of Dataquest, Inc., a consulting firm in San Jose, Calif. Networking 12 personal computers for instance, is likely to cost a bit more than $1,000 per machine: $7,800 for the dozen LAN hardware boards, $1,595 for the LAN server software and about $2,500 for cabling. In addition there is the expense of buying an extra microcomputer to manage the network.

And that is just the beginning. "Do not think you can buy a few boards, software, plug it all in and be up and running," cautions Ferrin Corporation's Ferris. Most companies will need a consultant at a going rate of $100 an hour to install the LAN, which includes adding software to it by designing new menus, setting up security systems with passwords and establishing procedures for data backup and recovery. And the consultant often must convert your existing software so it will run smoothly on the LAN. After that, employees will have to learn the system, and the company will, at the very least, need a half-time person to administer the LAN, Ferris says. These are costs that both the buyer and seller commonly forget, he notes.

Adhere to industry standards. What you want to know here is not how standards work, but that the LAN vendor you are working with can manage the token ring and the official Ethernet standard, emphasizes Doyle of IDC. If you do not buy with standards in mind, you could get stuck with a LAN that runs very little software. Worse, the vendor could quickly fade from the scene. Contends Howard Salwen, president of Proteon, Inc., a Natick, Mass., LAN supplier, "In this market any supplier that does not swim in the standards mainstream is heading for extinction."

Keep control. "LAN vendors are second only to sellers of personal computers when it comes to hype," declares Jeffery. Users often find themselves buying the latest and greatest technology "when what they really need is a plain vanilla LAN." Stay focused on what you want the LAN to do and make sure there is someone in-house who can talk back to the vendor "lest you catch technophobia," Jeffery asserts. Finally, he suggests talking to a number of users of the LAN you are leaning toward because "a user is the person most likely to tell you the truth." **NB**

To order reprints of this article, see page 81.

MANAGING YOUR BUSINESS

Managing Your Risks

High anxiety is increasingly common for businesses facing skyrocketing liability insurance costs. Obviously, costs are particularly steep for construction companies. But all sorts of business people can take steps to reduce their hazard factors.

By Eileen Z. Joseph

When Rick Farren took over the family dry-cleaning business 10 years ago, he had "robberies, stolen trucks, fires, a lady raped in my store and a strike—the first week." He had 11 plants, 12 trucks and 100 people.

Today, in the midst of the liability crisis that has been plaguing American businesses of all sizes, he is happy to have only one plant, in safe, affluent Potomac, Md. Farren was facing more risks than he was prepared to handle. He evaluated his long list of exposures and coped with his potential liability by cutting off the bulk of his business.

Farren still carries pricey liability insurance, but it is borne ultimately by his well-to-do customers in Potomac. He wants to keep his liabilities small, manageable and as foreseeable as possible.

New rules that pertain to his employees' health exposures "scare the heck out of me," Farren says, even though he has always leaned over backwards to protect his workers. He says that because he grew up in the activist '60s and '70s—he is 33—he brings a pronounced safety and environmental consciousness to his business.

But that does not make him comfortable with the thought of wider liability and the price of insurance to cover it. A recent U.S. Chamber of Commerce survey highlights what has been happening to liability insurance costs. Over 2,000 respondents report premium increases ranging from 51 percent to more than 500 percent as liability policies have come up for renewal. Trends in liability suits and court damage awards are forcing one in three American businesses to drop their liability insurance—go bare.

This extreme step might be avoided with a risk management plan under which the business would eliminate some liabilities, reduce others and go bare on others, thereby cutting the business' overall insurance costs.

Risk management plans are becoming preeminent as a first line of defense against loss as businesses increasingly

Eileen Z. Joseph is managing editor of the Environmental, Safety and Health Series published by the Bureau of National Affairs in Washington.

PHOTO: LYNN JOHNSON—BLACK STAR

adopt more cerebral approaches to soaring numbers of liabilities. As a result, some firms are gaining a measure of precious independence from skyrocketing insurance premiums.

Building a workable risk management plan means intelligently and objectively analyzing your business from top to bottom so you can identify every hazard that could result in claims against your company and might land you in court.

Then, almost as you would choose a meal in a cafeteria line, you can consider ways to provide protection against these potential liabilities. Which can you eliminate entirely through safety programs? Which can you afford to insure? Which can you gamble on assuming without buying coverage?

Though clearly not an abstract concept, a risk management plan has no line on a profit and loss statement. In the long run, its contribution to the bottom line will only be recognizable as a downward trend in insurance claims, complaints of product or service defects and other costs of doing business. Assuming all else goes well, this declining cost structure should contribute to larger company profits.

If you want to try to control your liabilities and lower insurance costs, the following steps might be helpful.

Define your objectives. The decision to have a risk management function must be made at the top. And as in the case of any management initiative, the success of such a program depends on a clearly defined set of objectives, clearly established authority and responsibility, and effective communication. Many large firms have published their risk management policies.

Identify and analyze your risks. Inventory all exposures and chances for loss. Are there dangerous objects that can fall on your staff and visitors? Does your company use chemicals that can send employees to the hospital? In what possible ways could your product harm someone? Are your workers and customers in danger of spilling blood, losing consciousness or breaking a limb? Survey every facet of your firm. Make an exposure list and continually update it.

Comprehensive attention to the list

Paid-up insurance premiums no longer guarantee restful nights, free from liability worries. Business owners are discovering other ways of giving themselves security.

A dry cleaner's liability inventory might include dangers from chemicals and machinery.

Pharmacists and pharmaceutical companies must contend with the threat of lawsuits—justified or not—over the effects of a wide variety of health care products.

PHOTO: GARY KIEFFER

PHOTO: TOM TRACY—AFTER-IMAGE

will contribute to more complete identification of risk. Then a thoughtful analysis must be made. What do these exposures mean to the company? What degree of frequency is associated with each? How serious are the financial implications? Slight? Moderate? Severe?

Analysis of the company's risks falls into three general categories: liability for people (both employees and the public), damage to company or public property and interruption of profit-making activity (machinery downtime, strikes, employee absenteeism).

Even after a thorough search for exposures in your firm, it is a good idea to seek input from outside sources. Call on your insurer or others in your industry to lend their experience on common exposures.

Consider risk control alternatives. There is no such thing as a risk-free business. A specific risk can be dealt with in these ways: eliminate, reduce or control it; transfer it; or retain and finance it. Eliminating, reducing or controlling exposures is essential to a risk management plan and brings together many disciplines. Every firm needs well thought-out policies for safety of people and property. A safety program must include contingency plans governing product recall, repair of vital machinery, even evacuation of the surrounding community if necessary.

If you cannot eliminate the risk, you might be able to transfer it to another party, either through a legal contract or a traditional insurance policy. You always pay for transferring a risk—and courts have put a good deal of emphasis on fairness to all parties involved in resolving disputes over transfer of liability.

When firms decide to buy insurance policies, certain minimum ground rules should be kept in mind. Never:

- Buy insurance out of habit. Buy only what you need.
- Renew or buy coverage without reviewing current exposures and updating the value of assets sufficiently to ensure proper coverage for each premium dollar spent.
- Assume that a phone call to your agent or broker when your policies come up for renewal is enough to handle your business insurance situation.
- Assume that your agent's or broker's knowledge of new coverages, markets or regulatory responsibilities for which you are liable is too sophisticated for you to discuss or understand.
- Wait until closer than six months before renewal to begin deliberations about new policies and coverages.
- Forget that insurance coverage may be unavailable for particular risks.
- Be fooled into thinking you can completely shift away liability; claims may still be made against you.

A hold-harmless agreement is another way to transfer liability. One party agrees to release another from specific liability during the period of their contract. Legal counsel should be called on to be sure responsibilities are clarified. Lawyers also can take into account some state restrictions on such agreements as well as specific insurance policy requirements. Hold-harmless agreements are especially useful when a firm employs contractors.

Also, your company can finance the risk itself. Using company assets to fund potential losses is a technique commonly reserved for dangers that

have little likelihood of materializing and that involve costs that could be safely absorbed.

Risk retention has advantages, including reduced expense for insurance premiums and the flexibility of paying for claims and damages in ways to maximize cash flow. The money is in the firm rather than in the insurance company. There are disadvantages, too: Reserve funds must be set up to fund claims, and the amounts left over may distort a firm's overall cost picture.

One technique that combines retention and transfer is retrospective rating of an insurance premium—the final premium cost is based on actual loss for the period of the policy. A provision is included for minimum and maximum cost to the insured.

Build a loss control scheme. Another part of a risk management program is high quality loss control. Many companies charge everyone they employ with responsibility for loss control. Such an attitude helps reduce loss frequency and severity. Adequate thought should be given to allocation of responsibility for controllable exposures like employee protection, fire hazards, product integrity and engineering quality. All are areas where exposures can be tracked and adequacy of control measures evaluated.

Ferret out hidden risks. One reason for constantly reviewing exposures is the possibility that you may overlook certain risks. Has your business been infected by the contagion for acquisition and merger? Watch out for hidden dangers that come along with the deal.

It is a good idea to have a lawyer check to ensure that, as a successor firm, your acquired assets are not fraught with hidden successor liabilities. Your attorney should review the new firm's employee benefit plans, including pensions and medical insurance. Examine products with an eye toward safety and liability and scrutinize properties for potential environmental problems.

Business insurance and risk management are complicated matters. The decision to insure against certain types of losses will be based on those losses' economic consequences. Buying insurance will provide the necessary large loss protection for most firms, but not for all.

Valuable services that can be purchased from insurers should not be overlooked. Insurers can provide specially trained personnel to assist in risk identification and analysis. They can provide administration of liability-insurance and other claims in firms where this is needed because of claim volume. They can conduct accident investigations. They can help your business develop and maintain a loss control program and monitor legal and other regulatory requirements.

Some final tips: Keep actively involved in any insurance buying. Information services and newsletters can be helpful. Adequate, cost-effective protection is based on many factors—which underscores the need for an ongoing involvement by a business owner. ■

Korea

Leading figures in a dynamic economy give strong assurances that they are committed to two-way trade.

"Human capital" is South Korea's greatest natural resource. Koreans possess one of the highest literacy rates in the word. Education is a pre-eminent concern. Sometimes Korean farmers will sell land and cattle to send their children to the best schools. All of this translates into a highly skilled work force that is in only one generation transforming Korea from a rural to an urban culture.

PHOTOS: REPUBLIC OF KOREA

South Korea's astonishing economic progress during the past two decades has spawned a myth that prominent Korean business and government figures say is dangerous to Korean-American trade relations and could undermine the United States' chief Asian military ally.

The myth is that South Korea is fast becoming a full-fledged industrial power, in effect a "second Japan" that can be muscled in trade disputes much as the United States pressures its major economic adversaries.

In fact, Koreans are far more vulnerable to punitive trade actions than developed powers. Their per capita income is one fifth that of the Japanese. With $46 billion in foreign debt, they are one of the most indebted nations of the Third World. They spend a whopping 6 percent of their GNP maintaining security forces that also serve American and Japanese interests in the Far East. Furthermore, South Korea chronically runs trade deficits.

Consequently, recent protectionist actions in Washington against South Korea are fueling anti-Americanism on a scale never before experienced in the three-decade-old close relationship between the Pacific allies.

Since 1984, the United States has restricted Korean market share of steel and imposed high antidumping margins on color televisions, photo albums and oil drilling rigs. The government is now challenging Korea's import policies on intellectual property and insurance. Additionally, Korean imports have been targeted in more than 30 pieces of legislation in Congress and would have been severely damaged had the congressionally passed textile and footwear bill of 1985 not been vetoed.

Last fall demonstrators took over the United States Information Agency building in Seoul, then seized the American Chamber of Commerce offices there.

"If our economic situation worsens, and opposition from politicians and intellectuals grows, we will see an increase in violent demonstrations," predicts a counselor to the Blue House (Korea's White House).

Korean business and government leaders are asking: Why is our biggest ally picking on us?

"We were on the threshold of standing on our own feet," says Korean Chamber of Commerce and Industry President Chung Soo Chang, "when the United States began its restrictive trade policies. Korea is still a developing country. We have some modern industries, but many are very poor in the rural areas."

The American media, many Koreans say, has overdramatized Korea's several success stories, such as Hyundai Motor Company's car exports, Daewoo Corporation's personal computers and the electronics products of the Sunkyong and Samsung groups that are appearing on retail shelves here. The image of Koreans invading the American market, they fear, will cause a backlash that could severely set back their efforts to improve their countrymen's mere $2,100 average annual per capita income.

"Korea is not a little Japan," says Hyundai Motor Company President Chung Se Yung. "We have many hardships. People think we are further ahead than we are." South Korea is also responding faster than Japan to American demands for greater market access, says Chung. "We want to buy also—not just sell alone. We are trying very hard to show that we're not a second Japan."

Daewoo Corporation Board Chairman Kim Woo Choong says much trade friction stems from an unwillingness in the United States to shift resources from unproductive labor-intensive industries to high technology and service firms relying more on software.

"People in the world have a right to live," says Kim. "There should be some division of labor. Even in Korea, which is a developing nation, we must yield some fields to undeveloped nations. The United

States needs to think more in terms of developing its advantage in software, less in hardware."

Kim suggests that American trade officials more closely analyze the impact of their demand that Korea open its markets. "Whatever sectors you force us to open should be ones that favor you—not the Japanese. We already have a big trade deficit with Japan."

Choo Byung Kug, president of the Korea Exchange Bank, asserts that his country is not yet advanced enough to yield to U.S. congressional insistence that it throw open its markets to far stronger competitors. "In the levels of technological achievements and capital formation, the Korean economy is an infant compared to advanced economies, like Japan and the United States. To demand reciprocal access to the number of service and manufacturing industries is premature and unreasonable, given our lower level of development."

The Korean economy is highly sensitive to trade winds, says Cho Sung Nak, senior managing director of the Sunkyong Group. "Forty percent of our GNP comes from exporting, and the trend is continually increasing," says Cho. "Without this, we cannot expect any growth and development since we have scarce natural resources. We import three fourths of our energy requirements. The degree of import liberalization should be based on the stage of a country's economic development."

Korea is just surpassing the infant stage of industrialization. Sunkyong, for example, is a leader in ship manufacturing. And yet, says Cho, "You have to look inside the ships. We import most of the components, then just weld them together."

Some American business people, backed by members of Congress and occasionally by the Reagan administration, say Korea maintains too many restrictions on imports like computers, construction equipment, consumer goods, machine parts, agricultural products and services like insurance and advertising. They also maintain that Korea provides inadequate protection—copyrights, trademarks and patents—for intellectual property. This, they say, contributes to the United States' $4 billion trade deficit with Korea.

The Reagan administration generally takes the position that much of the deficit results from the overvalued dollar. One official familiar with Korean issues says, "We have problems with only a couple of million dollars of the $16 billion in two-way trade we have with Koreans. I would say we have very healthy trade relations with them overall."

Companies like Daewoo were built from scratch by a new generation of business leaders whose entrepreneurial abilities are already developing robotics.

PHOTO: DAEWOO

In response to American complaints—but also because of its belief in unfettered trade—the government of President Chun Doo Hwan is undertaking an import liberalization program which will by 1988 open the market to 95 percent of all products. At that time the average tariff rate (31.8 percent in 1980) will be slashed to 16.9 percent.

Also, investment rules are now much more accommodating for foreigners, and the banking industry will soon offer outside banks full privileges enjoyed by Korean banks.

In addition, the Chun government is earnestly working to better protect intellectual property rights.

Noting this, Uk Ki Sung, deputy president of the Export-Import Bank of Korea, says, "It is difficult to understand the U. S. government's trade policy. It seems contradictory. You are restricting imports, and at the same time you are asking other countries to open their markets."

Koreans also observe that their trade surplus with the United States is illusory. Says Ssangyong Cement Industrial Co., Ltd., President Kim Chae Kyum, "If you consider the money we are paying the U.S. in interest and principal on our debts to American banks, we are not really enjoying a surplus."

Ssangyong's Kim—like many other Korean industrialists—dreams of more partnership arrangements with their political ally. "There are so many fields where the United States and Korea can cooperate for mutual benefit, utilizing American technology and Korean human resources," he says. Already, there are linkages between Daewoo and General Motors and Caterpillar, Samsung and Chrysler and General Electric, Lucky Goldstar Group and Ameri-

Ssangyong Cement, an example of Korea's many growth companies, is providing the building blocks for a resurgent economy. Ssangyong is a net exporter of cement. Its goods are helping develop many Third World economies while at the same time it pioneers in developing new ceramics.

PHOTO: SSANGYONG

can Telephone & Telegraph and numerous other arrangements linking the two economies.

Overall, the Korean economy continues to prosper. Says Deputy Prime Minister Kim Mahn Je: "Korea's growth, economic stability and competitiveness should all show marked improvements during the year, raising the living standards of our people and enabling Korea to play a more confident role in Asian and Pacific affairs. As the government continues its reforms, foreign businesses will be more able than ever before to take part in Korea's growth."

Already numerous American firms have discovered how beneficial it can be doing business with a people renowned for their dedication to the Confucian work ethic, a people possessing a literacy rate even higher than Americans and a determination to join the ranks of the industrialized world.

"Human capital," as Koreans term it, is the country's greatest asset. Koreans rose from 35 years of Japanese colonialism and the rubble of World War II and the Korean War to produce one of the world's most enriched work forces. In fact, Koreans working abroad are helping modernize numerous Third World economies, from the Middle East to Africa to East Asia.

Says one Western observer in Seoul, "These people not only work hard, they work smart." They are also imbued with strong free enterprise values that make them culturally almost immune from the Communist ethic that permeates their northern neighbor.

Koreans say that by working with Americans both could be a greater force in world economics—instead of weakening each other with a counterproductive trade war to the benefit of their mutual adversaries. NB

SPECIAL ADVERTISING SECTION

PERSONAL

To Your Health

The immune system protects us and needs to be protected. Keep healthy by staying relaxed and happy.

By Lynn W. Brallier

Take good care of your immune system, and chances are it will take good care of you.

We are virtually unaware of our immune system, yet it protects us every moment from illness and death. It is indispensable and usually awesomely effective. When it does fail, problems such as the common cold, flu, allergies, infections and rheumatoid arthritis appear.

These illnesses and more serious ones such as multiple sclerosis and AIDS are an indication that the body's defense system has been failing for some time.

A number of scientists today believe that many immune system problems are related to stress and that there is an intimate connection between our thoughts and feelings and our resistance to disease. These ideas are still controversial and the subject of much research.

Nevertheless, you have probably had the experience of catching a cold when you are under stress. But you can probably also recall times when you felt very sure you would not get sick, even though a virus was running rampant in your environment. Perhaps you felt that you simply could not afford to get ill because of a commitment you had made to a client or to a project deadline. It was as if you asserted your will to keep going and your immune system responded capably.

Recent theories about how your mind can affect your immune system's incredibly complex network of organs, vessels and white blood cells come from the new field of psychoneuroimmunology. Research in this field indicates that the immune system, brain and other vital body systems communicate with and influence one another. If your brain allows your stress level to get out of control, this can have a detrimental impact on the immune system, suppressing its ability to fight disease. Well-managed stress, however, may help keep your immune system healthy.

Thomas B., an advertising executive, came to a stress center I run. He was

Lynn W. Brallier, director of the Stress/Health Management Center in Washington, is a stress consultant and author.

By learning deep relaxation techniques, such as yoga or meditation, you can increase the chances that your immune system will function effectively.

PHOTO: T. MICHAEL KEZA

complaining of hypertension, exhaustion, and a two-year series of sore throats and respiratory infections. His internist and his wife insisted that he take time to learn better stress management before his health took a turn for the worse.

He agreed reluctantly, but he soon saw the benefits as he learned to relax deeply at will and ease up on some of the chronic "killer" patterns of inefficient overworking and perfectionism he had acquired.

During therapy, his blood pressure returned to a normal range, and his immune system began to function competently, meaning fewer sore throats and respiratory problems.

You can take action to keep your immune system in tune. These guidelines, based on current research, cannot guarantee complete protection from an immune system disorder, but they should increase chances that your immune system will stay healthy.

- Keep yourself generally fit. Get plenty of exercise, sleep, nutritious food and water. Avoid dependence on caffeine, nicotine, alcohol and drugs that may interfere with your immune functioning.
- Learn to elicit a relaxation response so that your stress level is under your control. This means becoming very deeply relaxed in mind and body.

One excellent way to gain this control is by using biofeedback instruments. As you practice relaxing, these monitors provide you with a constant stream of information about your muscle tension, blood flow and nervous system activity. Accurate instruments, however, are usually available only in the offices of health professionals.

Other ways to learn deep relaxation are through relaxation tapes, yoga or similar training and some forms of meditation. Don't kid yourself. A few drinks or a weekly dip in a hot tub are just not the same as bringing about thorough relaxation by using your own mind and will.

- Watch out for stress associated with prolonged feelings of anger, depression, helplessness and hopelessness. Negative emotions trigger the release of substances that can suppress immune functioning. If an employee makes a serious error or a contract falls through, pay attention to solving the problem in a way that lets you clear up your negative feelings as thoroughly and quickly as possible.
- Be aware that your immune system can take a nose dive after a traumatic event or after many seemingly inconsequential changes. Take particularly good care of yourself during the grieving period following any loss, whether it is the resignation of a talented employee, a divorce or the death of a friend or family member.
- Try to maintain a sense of organization and control over your personal and work life. Research suggests that lack of control over important life circumstances is linked to immune system dysfunction. Fortunately, this does not mean it is necessary to control others, just your own perceptions and feelings.
- And finally, develop a sense of humor. A healthy degree of emotional detachment and hearty laughter can stimulate the immune system.

Belly laughs and positive emotions are as good for your immune system as they are for your soul. NB

PEOPLE

Making It

Longer Lives For Old Poles

Decaying utility poles are an expensive problem. Utilitech, Inc., has patented a technology to save them, and President James Thompson (right) is licensing it to others. The first licensee is C.P. National Corporation, headed by A.H. Eaton.

PHOTO: RICHARD STEVEN STREET

Utilitech, Inc., of San Ramon, Calif., markets a new technology designed to solve an old problem: electric power poles with rotten bases.

Called REPOL, the patented technology will add 20 to 25 years to a wooden utility pole's working life. It can even save a pole 14 inches in diameter when 10 inches at the base have been destroyed by insects and decay.

Besides preserving existing poles, the REPOL process presents the utility industry with an opportunity to cut replacement costs drastically. Normal replacement costs for rotten poles average around $2,500 per pole—the cost for a heavily rigged pole on a busy intersection is as much as $10,000. Utilitech can do the same job for about $1,000 per pole, using a special REPOL truck-rig and a three-man crew.

Says Utilitech President James Thompson of his growing business: "We consider utility pole repairs a kind of bottomless paradise."

What created that paradise was the massive expansion in electric power use following World War II. Wooden poles with a working life of 25 to 40 years carried most of those lines. Today, as the bases of those poles rot out, the utility industry must annually replace 2 million to 3 million of its 132 million wooden poles.

Complicating the crisis is the scarcity of replacement poles. There are no longer enough tall, strong trees to sustain the industry's needs.

In 1982, Electric Power Research Institute, a private research company funded by major utilities, was asked to perfect a new pole replacement technology. EPRI devised a way to fix rotten poles by cutting them at the base and swinging the cut pole aside to put a strengthening pipe around it.

But EPRI decided not to go further with the technique, citing the danger involved in holding energized power lines on truck-mounted boom arms during the repair procedure. Frank Kinnan, 50, was one of the team of EPRI engineers who had worked on the pole repair technique. An inventor with more than 50 patented inventions to his credit, Kinnan believed a few simple adjustments could make the repair technique practical.

Kinnan's major modification consisted of vertically splitting and hinging the culvert pipe. This eliminated the need to cut the power pole in order to put the culvert in place.

But EPRI still was cool to the technique, so Kinnan began looking for private investors. Enter Thompson, 48, chairman and part owner of a sales and marketing company specializing in sporting goods, whom Kinnan met in March, 1983, at a neighborhood party.

"Kinnan was one of those creative geniuses who are good at creating things but have difficulties getting ideas accepted by the corporate community," says Thompson.

Rounding up a group of seven partners, Thompson promised Kinnan a percentage of any company profits, and in June, 1983, formed Utilitech. "It was a part-time deal at first," explains Thompson. "We spent most of the next year and a half working out procedures and concepts and perfecting the field installation systems."

Because utilities spend considerable time evaluating new technologies before accepting them, Thompson designed a large test project to showcase Utilitech's repair technique. During the winter of 1983-84, the company fixed 100 of Southern California Edison's power poles. Shortly thereafter, Pacific Gas & Electric Company endorsed REPOL.

Utilitech intends to dominate the business of restoring wooden power poles. Because of the difficulty of building a nationwide contracting business, the company has opted to license its equipment and technology to existing power line contractors, while it continues to service the Los Angeles area.

With 35 to 40 licensees across the country, an $11 million work backlog, and a 10 percent royalty on each pole installed with its new process, plus income from licensing, sales of new and replacement equipment, and little competition as yet, Utilitech seems assured of sizable profits for years to come.

—Richard Steven Street

Entrepreneurial success with telephone poles that need repairs, fancy cross-stitching and music synthesizers that bring the power of a studio home.

Artful Methods In Crafts

Nancy and Cecil Fields began their cross-stitch business with an original investment of $580. They now have a building for the company and are starting a second firm to manufacture stuffed animals and wooden toys.

PHOTO: KEN TOUCHTON

Nancy Fields took her art degree into the marketplace rather than into the museums. Result: She and her business partner, husband Cecil, are making more money than many an artist ever made.

Not in oils and landscapes but in, of all things, printing border designs on cloth for hobbyists who do cross-stitching.

The Fieldses' craft firm, Needles & Company, in Albany, Ga., hit $600,000 in sales last year, an impressive figure considering the company has been in business less than two years.

Ironically, the firm nearly collapsed under the weight of its first order in May, 1984. Recalls Nancy Fields, 36:

"I had this good idea, something that hadn't been done before. I designed a floral border for a 15-inch by 15-inch cloth on which people do cross-stitching. I had the design silk-screened on the cloth, giving it a colorful border or frame with room in the middle for the cross-stitching of a pattern."

She sent it off to a large Maryland craft company. Back came an order for 400. The next day the enthusiastic buyer called again, doubling the order.

Cecil, 39, a personnel officer with an Asheville, N.C., textile firm, shipped his wife's fledgling firm a bolt of cloth, hoping the order might grow into the family business they always dreamed of. But the euphoria ended quickly; the colored borders did not print well on the material.

"Sixty percent of the cloth was ruined in trying to fill the order," Nancy says. "We pleaded for more time, and the buyer was patient." The Fieldses corrected the ink adjustment, and there has been no repetition of the problem since that first order. Needles & Company, now with 12 employees, has been cutting 5,000 pieces of cloth a day for silk screening and filling orders. In its first six months sales hit a quarter million dollars.

All on an original investment of, says Nancy, "$80 for the initial silk screening and about $500 for the cloth." She admits costs were held low by opening the business in Albany where her family lived. "My mother took care of our three children, and my sister helped me full time and became an investor and partner. Every weekend Cecil drove the 500 miles to and from Asheville." He quit his textile job and joined the family firm in February, 1985.

The colorful bordered cross-stitching mats are now done on linen and flax, as well as cotton. Needles & Company has moved into its own new 5,000-square-foot building into which "orders come from all over the country, often for 100,000 pieces each," says Nancy.

Sold under the name Yorktown Prints, the bordered cloths retail in craft stores at $3.60. Often sold with them is a booklet costing $3.50 that was written by Mrs. Fields and contains patterns and designs for cross-stitchers.

"I've done nine books so far," she says, "and we've sold about 100,000 of them." The book printing, as well as the silk screen work, is subcontracted.

With the Fieldses, success has led to further successes. In December, 1984, Nancy initiated another idea—small animal-shaped sponges for children's play or baths. Nine such sponge animals—from "Puddles Puppy" to "Rubba Rabbit"—now sell in grocery stores for 79 cents each, bringing into the Fields household another $50,000 annually.

On a roll, the Fieldses have opened a second firm, C.L. Fields, Inc., to market a collection of stuffed animals and old-fashioned wooden toys it has designed.

"The cross-stitch business accounts for the bulk of our sales right now," says Mrs. Fields, "but the potential for our toys is 20 times greater."

And while he is on the road selling, Cecil Fields uses hotel room time for another endeavor—writing small books for elementary school children about business and the real world. Explains Mrs. Fields:

"We want to help children to get away from fantasy land, to give them some guidance. The books will teach children about free enterprise, about running a business."

Where will it all lead?

Hopes Nancy Fields: "Fewer working hours."

—Del Marth

The Musician's "Word Processor"

The Synclavier is a computerized synthesizer that can transform a single musician into a one-man band. It is the brainchild of (from left) Sydney Alonso, Cameron Jones and Brad Naples.

What do Oscar Peterson, Sting and Chick Corea have in common? Besides the fact that all are highly talented and successful performing artists, each recently shelled out over $100,000 for a "Synclavier," a computer-driven synthesizer that transforms them into one-man bands in their own homes.

To Sydney Alonso and Cameron Jones, Synclavier's inventors, that engineering and commercial triumph is the culmination of stick-to-itiveness that started when they met on the Dartmouth College campus 13 years ago. The two saw a small university research project grow into New England Digital Corporation, a company they founded in 1976 to commercialize what was then "a primitive tool to provide ear training for music students," says Alonso.

From that point on, Alonso, now NED's chairman and director of research and development, and Jones, assistant R&D director, would apply their genius to improvement of the Synclavier until world renowned musicians would make NED one of the fastest growing audio engineering companies in its field. The goal: to build NED into a $200 million to $300 million a year audio giant over the next five years.

The privately held company appears to be on the right track. Last year, NED, with 80 full-time employees, reached sales of $9 million, an 80 percent jump over 1984. "We have been on that kind of growth curve since 1979, when we had only 15 people and were doing $300,000 worth of business a year," reports Jones. Of his association with NED, he says, "I was just a student. I never had a plan to start my own company."

Not so for the more entrepreneurial-minded Alonso. Before forming NED, he had tried to launch electronics ventures three times and failed miserably. "I think I succeeded with NED because it was the one enterprise where I wasn't hedging any bets," he says.

Much of the credit for the Synclavier goes to John Appleton, a leading composer and teacher of electronic music who planted its seed when he asked Alonso, a hardware designer, to brainstorm a way to get Dartmouth's central computer to control his analog synthesizer. Inspired by Appleton, Alonso

PHOTO: JONATHAN SA'ADAH

raised support for a research project, recruited Jones "for his software brilliance" and embarked on development of their digital synthesizer.

Another grant followed, and pretty soon "we were getting inquiries from Norlin Corporation, a music conglomerate that wanted to test market the synthesizer," recalls Alonso. Alonso quit his research associate position at Dartmouth, and he and Jones—just graduated—launched NED in White River Junction, Vt. Norlin lost interest, but the two were convinced that by exploiting rapidly advancing computer technology, they could create what Jones calls the "musician's word processor."

"With today's Synclavier you get the capability of a $1 million studio—the tape recorder, mixing consoles, reverb machines—in one box for a fraction of the cost," Jones declares.

Despite the Synclavier's dazzling effects, NED does not expect smooth sailing from here on. Concedes NED President Brad Naples:

"There is a lot of ignorance about the Synclavier. People put it down, saying it makes plastic music. The job ahead amounts to no less than re-educating an entire industry to a coming renaissance that will radically change the way music is made."

—*Karen Berney*

PERSONAL

It's Your Money

Despite their reputation as the haven of the unsophisticated, mutual funds can pay off handsomely.

By Ray Brady

Of all the investors I know, Jack Sullivan has to be one of the smartest. A vice president of the Brenton First National Bank in Davenport, Iowa, Sullivan has made money in a long list of stocks, ranging from Prime Computer to Pepsi-Cola. But over the past six months, this shrewd investor has been investing in mutual funds.

Yes, mutual funds—supposedly the place for the unsophisticated investor to put money. Says Sullivan: "It's almost like robbing. I've been making so much money in the funds."

Sullivan is not the only investor who feels good about mutuals. The sale of shares in the funds more than doubled last year, hitting $110.5 billion. In fact, the Investment Company Institute says that one in four U.S. households now owns shares in a mutual fund.

Like Sullivan, many fund owners made money in them. Altogether, mutual fund assets went up 27.1 percent last year, far better than an investor would have done in money market funds or bank certificates of deposit. In fact, if you had been in Fidelity Investments' overseas fund, you would have seen the value of your holdings soar 78.7 percent. In Fidelity's over-the-counter fund, you would have done almost as well; its shares rose 69 percent.

"I got a little nervous late last year that the market was flying so fast, so high," says Sullivan. "So I said to myself, 'The big bucks of Doris and Jack Sullivan are going into mutual funds,' and around November that's where I put the money—some in stock funds, some in bond funds."

Safety is one of the big attractions of mutual funds. By buying into a fund's shares, you get the advantage of having professional managers picking your stocks. Though those managers are a long way from being infallible, the fund will be investing in a wide variety of stocks, so you get the safety that comes from diversity.

But how do you pick the fund for you? It is not easy. There are now about 1,500 mutual funds, triple the number of just a few years ago. The funds have varying aims: Some invest in over-the-counter stocks, others in growth stocks, bonds or almost anything you can name.

Ray Brady is the business correspondent for CBS News.

A. Michael Lipper, probably Wall Street's top expert on mutual funds, has this advice: "Try to find funds that have succeeded in the past and try to understand those periods and think about how similar conditions will reappear in future periods."

In other words, if you think we are in an economy where the blue chips are going to do well, buy into a fund that specializes in them. If you think inflation is dead, look for a fund that has done well in times of low or no inflation.

If you have no feel for what is coming, look for a fund that has consistency in its investing performance. Don't evaluate the fund's performance for just a single year. Check it out for the past 10 or 12 years. If the fund is new, consider its short history carefully.

You should also look carefully into just what it is going to cost you to invest in a mutual fund. Some funds charge you a fee to buy their shares. Others are "no-load" funds; they do not charge you a fee to buy.

Then there is the kind of fund touted in ads all over the financial section of your newspaper: "Ginnie Mae Funds—Steady Income and a Government Guarantee—Invest Now!"

Ginnie Mae (Government National Mortgage Association) funds usually pay a higher rate of interest than most other investments, one reason their value has shot up from virtually nothing two years ago to around $20 billion today. Ginnie Maes basically are securities backed by mortgages that in turn are backed by various government agencies. The timely payment on the Ginnie Mae certificates in your fund is guaranteed by the full faith and credit of the U.S. government.

But the investor must not ignore what is summed up by Michael Lipper in two words: "market risk." Ginnie Mae bond funds will rise or fall with interest rates, so if you sell before maturity (usually around 12 years) you could lose money.

Not only that, if mortgage-holders see interest rates go down, they may refinance their mortgages. Result: You get some of your investment back, but you may have to reinvest it at a lower rate than you were getting in the Ginnie Mae fund.

The Ginnie Mae, it should be stressed, is a good investment, provided the individual investor knows exactly what is involved. Which is true, of course, about putting money into any kind of mutual fund. As Jack Sullivan puts it: "You've simply got to do your homework." NB

DIRECT LINE

Answers To Your Questions

Information on literary properties, telemarketing laws, unemployment taxes and recordkeeping.

Phoning Homes

What federal regulations govern the telemarketing industry?
D.A.D., Alexandria, Va.

According to Eugene B. Kordahl, president of National Telemarketing, Inc., only one federal law does. The "monitoring law" requires telemarketing organizations that listen in on solicitation calls to inform new employees that supervisors may monitor the telephone conversations to evaluate the employees' performance. Telephones belonging to firms with this policy must also carry a "service observing" notice.

The telemarketing industry is also governed by state laws and by standards it has imposed on itself. Generally accepted guidelines include calling hours (usually between 9 a.m. and 9 p.m. and not on Sundays). States have a variety of laws, so it is important to contact your board of public utilities for details.

Illinois recently passed a law imposing a 5 percent tax on all out-of-state calls received by Illinois 800 numbers. Many telemarketers are questioning the tax's legality.

Reproduction Rights

I am interested in publishing old literary works. Most were copyrighted before 1900. Must I obtain the rights to these books?
A.S., Macon, Ga.

Literary works published before 1911 are no longer protected by copyright laws, according to the Library of Congress copyright office. Literature published after 1911 and before 1978 was given 28-year protection, with an option for a 47-year renewal. For works copyrighted after 1978, the protection lasts the life of the author plus 50 years. There is no renewal.

Compensation Dispensation

Why are the unions not required to pay part of the unemployment compensation for their members?
L.W., Jacksonville, Fla.

The cost of unemployment compensation has always been considered part of the cost of doing business, to be offset by the price of the business' goods or services. Employers are taxed according to their record of layoffs—the higher the number of layoffs, the higher the tax.

ILLUSTRATION: WILLIAM COULTER

Professionally Speaking

I would like to establish myself as a public speaker. What topics are considered currently in demand?
D.F.D., West Palm Beach, Fla.

According to Barbara Galli, deputy executive vice president of the National Speakers Association, it is first necessary to distinguish between public speaking and professional speaking. People interested in public speaking give speeches only occasionally and want to develop their skills. She recommends joining speaking groups such as Toastmasters to keep in practice.

Professional speakers are hired to present speeches at conventions, seminars and other meetings. Galli reports that meeting planners are mainly looking for either entertainers or speakers who can provide useful information that will help attendees boost their productivity level. If you want to develop a professional speaking career, it is best to choose your area of specialty based on your expertise.

Rolling Logs

Are entrepreneurs required to keep log books on the use of personal cars for business?
G.B., Waycross, Ga.

Under Internal Revenue Service rules that went into effect January 1, entrepreneurs can substantiate a deduction for the use of their cars by maintaining records long enough and completely enough to establish a pattern of business use. How you do that, says Steven Pyrek, an IRS spokesman, depends on the nature of your business. In one extreme example, if you make the same trip every workday all year long, perhaps three months' worth of records would build a pattern acceptable to the IRS. If your business is seasonal, however, you cannot substantiate a year's worth of business use based on the short time you use your car the most.

Although contemporaneous records are not required, the IRS advises that business owners enter their trips into the books while their memory of them is still fresh.

The IRS is still looking for mileage, purpose of the trip and destination. One general guideline, applicable to more than autos, has not changed—the more complete the record, the better.

Good Reads

Could you recommend books that describe income tax law changes and offer guidance for small corporations?
M.H., Houston, Tex.

You can find booklets detailing tax information at your local Internal Revenue Service office. Although you can order them through the mail, you should probably get them in person if your corporate tax deadline is near. The business sections of most bookstores also stock plenty of volumes on tax and corporation management. Remember that much current tax information could become obsolete if so-called tax reform legislation is passed in the year ahead.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

PERSONAL

For Your Tax File

A few last-minute opportunities to save on 1985 taxes; the right way to set up a lease for an investment credit.

By Gerald W. Padwe, C.P.A.

A Few Deductions You Might Have Missed

ILLUSTRATION: CAMERON GERLACH

You are only a couple of weeks away from the deadline for filing your 1985 Form 1040 and probably are thinking you must have missed some deduction or benefit that could cut your taxes—even by a little bit. Since we try to make this an upbeat column, here are a couple of easily-overlooked possibilities.

State tax on stock sales. Most taxpayers think of net proceeds for stock sold on a listed exchange as the selling price less broker's costs. But, depending on where the transaction takes place, one of those costs may be a state transfer tax on the sale.

The Internal Revenue Service has held that such state transfer taxes are deductible as a *tax* and need not be shown as a reduction of sales proceeds from the stock. This can be important, since it matters where on your return that deduction is claimed. Remember two points about sales of stock:

1. If you wind up the year with a net long-term gain, 60 percent of it gets excluded from your tax base.

2. If you wind up the year with a net capital loss, there are limitations on how much you can use in the current year, and some may have to be carried forward into future years.

Thus, if you show the state transfer tax as an offset to sales proceeds, you will reduce capital gain, but, because 60 percent of that gain is not subject to tax anyway, you have also given up the possibility of deducting 60 percent of the transfer tax. If you wind up the year with a net capital loss, the loss limitation rules may force you to carry over the transfer tax deduction to the future.

If, on the other hand, you break out the transfer tax from the sales transaction and show it separately among other taxes you are deducting, you will increase taxable gain, but you will then get to deduct all of the tax. A bargain, from any perspective.

Business gifts. Lots of people forget—perhaps because the dollar amount is so small—that a deduction is permitted for business gifts up to $25 for each person to whom you give. That rule dates from 1962 and, with inflation, the $25 of that day should be substantially higher, but Congress does not tend to index specific deductions.

You may remember to deduct for gifts to customers, but how about those Christmas gifts you bought for secretaries in the office? Up to $25 for each person is deductible.

The Advantage In Equipment Leasing

Financing business equipment produces some complex accounting and cash flow questions for an enterprise. It also produces some interesting tax issues—and opportunities for tax planning.

Having the owners of a closely held company buy equipment and lease it to the business can benefit both. Start-up operations often have losses (and therefore no tax liability), and corporations in their first several years may be in a substantially lower tax bracket than their owners.

Leasing allows the owners to take depreciation deductions and investment credit for the equipment on their individual returns. Those benefits are of less use to the business that has a low income. However, in order to claim the investment credits in this situation, the lessors must meet certain tests.

Generally the lease term must be less than half the useful life of the leased asset, and the lessor's ordinary expenses (excluding personal property taxes, depreciation and interest) for the asset must exceed 15 percent of the rental income received during the first year of the lease. Because of these technical requirements, care must be taken in drafting the lease agreement.

Two recent U.S. Tax Court cases exhibit both the right and wrong ways to structure this type of transaction. In both cases, assets necessary for operation of the business were leased to the business by its shareholders. In the first case, the shareholders agreed to pay 16 percent of the ordinary expenses of the leased property, and the lease term was clearly less than half of the property's useful life. In the second case, the lessee paid all the expenses and was also allowed to continue using the leased property after the end of the lease term. As might be expected, the lessors in the first case were allowed the investment credit and the lessors in the second case were not.

Depending on what, if anything, tax reform does to the investment credit, leasing to a closely held corporation can be a very effective means of tax and financial planning. A little extra care exercised in planning the transaction today will pay big dividends in tax benefits later.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Higher Taxes On Energy?

Prices of oil and other energy sources are falling. Congress is awash with proposals to levy new energy taxes, and proponents say the income could be used either to help keep tax reform revenue-neutral or to raise money to forestall the need for spending cuts. Opponents say such taxes would stunt economic growth and deny people benefits of cheaper energy: more jobs, lower interest rates and less inflation. Should Congress enact new taxes on oil, gasoline or other energy sources?

2. Forbid Lie Detector Tests?

Congress is considering a bill making it illegal for employers to use lie detector tests. Sponsors call polygraph testing "intrusive" and "inaccurate." Opponents say it is an important tool in screening employees for sensitive jobs in such industries as banking, nuclear power and drug manufacturing. They say outlawing such tests would lead to an increase in crime and could make it harder for innocent employees to exonerate themselves. Should a federal law be enacted to ban use of polygraph tests?

3. Repeal Two-Term Limit On Presidents?

U.S. Presidents are barred from serving more than two terms by a constitutional amendment passed when the memory of the only President to serve longer, Franklin D. Roosevelt, was still fresh. Proponents argued then that no one should serve more than two terms. Opponents say such a restriction is not needed and makes it harder for second-term Presidents to provide leadership, especially in Congress. Should the amendment limiting Presidents to two terms in office be repealed?

Verdicts On Pain And Suffering, Lawyers' Fees, Time Limits

Here is how readers responded to the questions in the February issue's Where I Stand poll.

	Yes	No	Undecided
Should limits be placed on lawsuit awards for pain and suffering?	92%	6%	2%
Should there be a cap on lawyers' contingency fees in damage cases?	92%	5%	3%
Should limits be placed on the time period for bringing product liability claims?	93%	4%	3%

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COMMENTARY

Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Budget	The administration's proposed fiscal '87 budget includes $38 billion in spending cuts—and no tax increase—to comply with the budget deficit target for the first year of the Gramm-Rudman-Hollings act, which calls for progressively reduced deficits and a balanced budget by 1991. Congress' decision on the budget will affect interest rates and economic growth.	Members of the House and Senate: Congress must curb spending and promote progrowth economic policies. Reduce the level of federal spending, without raising taxes, to meet the budget deficit targets in the Gramm-Rudman-Hollings act. Failure to reduce deficits could cause interest rates to rise and economic growth to decline.
Tax Reform/ Simplification	House-approved tax reform legislation would damage business investment with changes in depreciation and repeal of the investment tax credit. Other anti-growth provisions include changes in foreign tax credits that would hamper American firms in competing in international markets.	Members of the Senate: Oppose anti-growth, anti-investment features in the House-passed bill. Tax reform should be set aside, and efforts should be concentrated on reducing budget deficits.
Balanced Budget Amendment	Business would benefit from enactment of a constitutional amendment requiring a balanced federal budget and limiting tax growth. Uncertainty over constitutionality of the Gramm-Rudman-Hollings deficit reduction legislation has intensified need for a balanced budget amendment that would also limit percentage increases in taxes to percentage increases in national income.	Members of the House and Senate: Support a balanced budget and tax limitation amendment that would place permanent limits on Congress' ability to tax and spend. Passage of this legislation is crucial for the economy and U.S. competitiveness.
Line-Item Veto	Presidential authority to veto individual appropriations would help curb excessive government spending, which adversely affects business in a number of ways. Currently, the President can veto only an entire appropriations bill, which includes hundreds of programs.	Members of the House and Senate: Support legislation authorizing the President to veto individual appropriations. Line-item veto authority is needed to enhance budgetary discipline.
Product Liability	Inconsistencies in state and federal statutes governing product liability have plunged businesses into a nightmare of uncertainty about standards they must meet in varying circumstances and areas. The inconsistencies have contributed to difficulty in getting liability insurance and to huge rises in premiums.	Members of the House and Senate: Enact legislation establishing procedures for state and federal courts that would introduce more certainty and thus decrease business costs in product liability cases. Passage of a uniform set of rules would help alleviate a crisis in American business.
Superfund	Businesses would be affected by taxes used to finance cleanup of abandoned toxic waste sites under the Superfund reauthorization bill. The original $1.6 billion five-year authorization, which expired September 30, was funded mostly by a tax on crude oil and chemical feedstocks, with a small proportion coming from general revenues.	Members of the House and Senate: Support Superfund reauthorization legislation that balances economic and environmental needs. Support financing at reasonable levels, funded by general revenues, for the amount needed over the previous $1.6 billion level. Oppose any new or increased taxes on business alone for Superfund.

LESSONS OF LEADERSHIP

The Long Road To Cross The Street

Herman Valentine speaks of his "dumb" choices, but the bright results have made him a role model.

By Del Marth

From his Norfolk, Va., executive suite, Herman Valentine can see the corner where he used to shine shoes as a boy. Today he owns the multimillion-dollar Systems Management American Corporation, employing 550 people.

PHOTOS: BILL BALLENBERG—BLACK STAR

On the corner of Monticello and Market streets in downtown Norfolk, Va., a lanky kid hustles shoeshines. His best customers come from across the street—executives working in the sprawling four-story department store and its adjacent 16-story Maritime Towers office building. It is one of the city's more valuable blocks of real estate.

The scene is a 40-year-old memory of Herman Valentine. Sometimes it is very vivid to him when he looks down on the corner from his executive suite in the former department store building.

Today that shoeshine boy, Valentine, owns the old store. And the Towers. And a third building in the block. The entire block is headquarters for Systems Management American Corporation, one of the largest black-owned businesses in the United States.

Founder and sole owner of SMA, Valentine has created a firm that ruggedizes off-the-shelf computers for military use. Under U.S. Navy contracts, SMA rebuilds computers to withstand humidity, heat, dust, shock—all the things that occur aboard military vessels—and installs them in Navy ships.

"I didn't realize how difficult it was going to be," says Valentine, of his 16 years creating SMA. "I've put in long hours, borrowed often from banks, spent a lot of time on proposals for contracts that I didn't get."

Today, down on his former corner, Valentine finds no young lad hustling shoeshines or, for that matter, getting a head start in any business endeavor. And it concerns him.

"I tell young blacks they don't have any of what I call recovery time—that is, they don't have time to go off backpacking in Europe for two years," he says. "The competition [for good jobs] is too fierce. They don't have time to walk around with those damn radios stuck in their ear."

Even Valentine worries about being short of time, though he is only 48. He has built SMA from a one-man answering service into a national firm with 550 employees. But his major goal—to bring SMA's annual sales to $500 million and thus make it the first black-owned business to be among the nation's top 500 industrial firms—still lies ahead.

"I want everything too fast," says Valentine, who has weaned himself off cigarettes and caffeine, for both longevity and energy purposes. "It's very frustrating. I feel I'm so far behind. It bothers me."

To compensate for his feeling that he is losing the race, he works not only long days, but weekends, too. By noon he already has been up and working more than six hours. Yet, leaning back comfortably on the office sofa, his muted gray pinstripe suit still unwrinkled, the casual loafers still unscuffed after frequent trips into other departments, Valentine appears as untouched as his modest-sized walnut desk near the far wall.

So that no one is misled, however, at least about the paperless surface of his desk, he points out: "I've read so many books about guys with empty desks that this is my new thing this year—keeping my desk clean."

Credit for such tidiness must go in part to his secretaries. More than one? "Oh, yes. And they're more than secretaries, really; they're my assistants. I have two shifts of them. I couldn't keep anybody here 10 or 12 hours every day, so I have one who comes in early when I do, and after she finishes her shift another comes in and works with me until 8 at night. I have to stagger them, or I would burn them out."

In earlier years Valentine himself experienced burnout.

For example, he dreamed of becoming a pro basketball player. Tall enough at 6 feet 6 inches to be a crowd-pleasing dunker, he was an outstanding high school player and a hot prospect for a college basketball scholarship—and a possible professional career beyond that. "But, as I said, I burn out fast, and I soon didn't want to play high school ball. I wanted a car instead."

Time that had gone into basketball now went into a part-time job so he could buy the car. "I really made some dumb choices then," Valentine says.

He finished high school, went into the Army, married and came back to Norfolk at age 23, scouring the town for odd jobs. "I decided I was going nowhere fast," he says, "so I started college."

Driven by a feeling of being behind,

The Long Road To Cross The Street

and wanting things quickly, he earned a bachelor's in business administration degree from Norfolk State University in three years and plunged into the bureaucratic maelstrom of Washington as a properties manager for the Agriculture Department. In two years he had learned the ins and outs of government, a lesson he was to put to good use.

Before he did, Valentine was enticed back to Norfolk by his alma mater. In 1966, at age 29, he accepted his college's offer to become its business manager.

"But I became very restless, very quickly, in Norfolk after Washington," he says.

Then Valentine made another dumb choice—at least in the view of some friends at the time.

"It was 1970, and I had a Ford Foundation grant in my hip pocket to go to Columbia University for graduate studies," he says. Instead, swept up in the era's social awareness of minority needs, Valentine jettisoned his career up to that point and started over.

With a saved $5,000, he opened a consulting firm—"I had an answering service, a post office box and a part-time secretary"—for black businesses. He called it Systems Management Associates.

Valentine sold administrative and financial advice to black entrepreneurs. Soon he was doing data processing for them—he had learned about it at Norfolk State and the Agriculture Department—and even programing.

"By 1972 I had 12 employees, mostly part-timers, and was taking in $120,000 a year," he says. It was the beginning of today's rapidly growing SMA, though Valentine was not sure where he was taking the company. He bid on a potpourri of small government data processing jobs and won several contracts. In 1977 he captured a contract with the Equal Employment Opportunity Commission, processing results of surveys that collected data on ethnic groups in the work force.

Using his knowledge of Washington's bureaucratic structure, he landed another processing contract in 1979, this time keeping track of the millions of federally guaranteed student loans for the Department of Education. By 1980 SMA was doing a total of $5.4 million in business.

"But SMA really came of age in 1981," Valentine says. "The Navy needed a firm to design, install and maintain

Valentine's company, including Operations Department manager Raymond W. Marshall (standing) and computer operator Ricky J. Shirley (at keyboard), customizes computers to withstand rugged military use.

sophisticated recordkeeping computers aboard ships. We had the engineering know-how, but the Navy said the job was too large for us. After a dozen or more meetings, I finally got their attention, and they sent an evaluation team to our place. They found no reason why we couldn't do the job."

That contract catapulted SMA into the big leagues, at least among minority-owned businesses. The shipboard computer contract pushed SMA sales in 1982 to $18 million, in 1983 to $31 million and in 1984 to $51 million.

Sales last year dipped to $40 million, but only because SMA, assigned to miniaturize and ruggedize existing computers to fit and function aboard the Navy's submarine fleet, has spent much of the past 12 months in research and development for the job.

"By 1990, we'll have $500 million in sales," Valentine says confidently. "For me, it is the ultimate statement I want to make. There has never been a black-owned business of that size in this country."

SMA's success to date already has rewarded Valentine's psyche. "I've just begun to realize that our company has become a true corporate citizen, that we are recognized both locally and nationally. Today, when something occurs in this community, the power brokers now involve me, they give consideration to what I think. And these are people whose families have been in the forefront in Norfolk for 50, even 100 years. They were names in this city when I was across the street shining shoes."

Of course, Valentine knows he could lose it all without a better mix of contracts. SMA's Navy work makes up 90 percent of company revenues.

"I've missed some other large contracts because we weren't low bidder," he explains, "but I am going to remedy that, I guarantee you. We've kept our offices in Washington, La Jolla [Calif.] and Houston, but we've closed three smaller offices around the country. I've cut $4 million out of our overhead. I'm getting lean and competitive."

And he has his staff lean and competitive, many of them staying at their desks for daily double shifts when the work load gets heavy.

Says Marie Hinderliter, strategic planning specialist: "When the big contracts come in, we work until things get done. I have come in on Monday and not left until Thursday."

Such dedication is common among Valentine's employees, about half of whom are members of minorities. Many were untrained workers before coming to SMA, where they have been trained to be computer technicians and high tech specialists.

Valentine hopes they, and others like them, realize they have the opportunity to become corporate leaders just as he did. He thinks about that each morning as he drives in from his 50-acre horse farm in nearby Virginia Beach, pointing his car at the SMA logo on Norfolk's skyline atop the old Maritime Towers.

"I wish I didn't have to be a role model," he says. "But I feel I have that responsibility." ■

COMMENTARY

Editorials

It's time for Congress to expand efforts to contract out; the hard road to a solution of the liability crisis.

"Government Managers Do Not Have The Discipline Of The Marketplace"

PHOTO: THE BETTMANN ARCHIVE

April 3, 1860, was a big day for Russell, Majors & Woddell, a freight firm in St. Joseph, Mo. The company launched a new venture designed to cut drastically the time it took to communicate with the Far West.

Called the Pony Express, the enterprise evolved from the federal government's inability to meet the need for faster postal service to and from a fast-growing part of the country.

The Pony Express represents one of history's more dramatic manifestations of privatization, which is based on the assumption that the private sector can provide commercial services more effectively and more economically than the government.

President Reagan proposes to make extensive use of privatization in meeting the deficit reduction mandates of the Gramm-Rudman-Hollings act. He said in submitting his 1986-87 budget to Congress:

"The wealth of society tends to be greatest when production and distribution take place in private, competitive markets. Private firms are forced by the pressures of competition to be efficient and responsible to consumer demands, or they will not succeed in the long run.

"The incentives to control costs are stronger in the private sector ... because government managers do not have the discipline of the marketplace," the President continued. "Government also frequently misprices the goods and services it sells, either because it consciously chooses to do so, or because it lacks sufficient information to price its services correctly."

The federal activities the President wants to turn over to private ownership include the five Power Administrations, which now sell 6 percent of all electric power produced in the country, two oil fields operated by the Energy Department as the Naval Petroleum Reserves and $500 million of surplus real estate "that could be used more effectively in the private sector."

Another proposal would establish a system of vouchers that would help low-income individuals provide for their own housing needs, instead of being limited to public housing projects.

President Reagan is also calling for an end to a wide range of federal subsidies and for an acceleration of the contracting-out process, under which government agencies providing commercial services must compete against private sector sources on a cost-effective basis.

The President says that more than $475 million has been saved by contracting out since 1979, and that there would be additional savings of nearly $1 billion over the next five years under his proposals to step up the competition.

Though privatization has been tested on only a limited basis thus far in the federal government, its potential for major savings makes it particularly significant in this era of budget restraint. Congress owes it to the taxpayers to expand an effort whose results are measured in terms of greater efficiency and economy in government.

Business Is Clear On How It Wants The Liability Crisis Solved

The extent of business concern over the liability crisis is reflected on page 80 in the results of a poll of NATION'S BUSINESS readers. Each of three far-reaching proposals for remedial action drew the support of more than 90 percent of those responding.

Specific actions supported were limits on the amount of money that could be awarded in lawsuits for noneconomic damages, such as pain and suffering; a cap on lawyers' contingency fees; and a reasonable statute of limitations on product liability suits.

Results of the poll dramatize the basic business position that relief from the crisis—with its soaring premium costs and, in many cases, inability to obtain coverage at any price—depends on reforms in the civil justice system that is responsible for creating the mess in the first place.

A solution will be neither quick nor easy. The issue is complex and involves many competing interests. Part of the solution will have to be developed by the federal government, which can set broad national policy, and part by the states, each of which sets the ground rules for its own civil courts.

The strong business backing for civil justice reform is already showing signs of effectiveness, however. Officials at all levels of government have been made aware of the seriousness of the problem and of business expectations that it be resolved fairly.

Congress is considering a wide range of legislative proposals to eliminate the underlying causes of the liability crisis. So are most state governments. A few states have already passed remedial legislation.

There is still a long way to go to a resolution of the problem, but these early steps offer grounds for optimism.